Annual financial report

Hydromet Corporation Limited
and its controlled entities

ABN 71 002 802 646

30 June 2001

Offices and officers

Principal registered office
Lot 3 Five Islands Road
Unanderra NSW 2526

Telephone: 02 4271 1822
Facsimile: 02 4271 6151
www.hydromet.com.au

Company Secretary
Mr Neil W Smith

Offices
Hydromet Corporation Limited
Hydromet Operations (Southern) Limited
Lot 3 Five Islands Road
Unanderra NSW 2526

Telephone: 02 4271 1822
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Hydromet Operations Limited
Tasmania operation
Risdon Road
New Town TAS 7008

Telephone: 03 6278 9287
Facsimile: 03 6278 9320

MinMet Operations Pty Limited
25 School Drive
Tomago NSW 2322

Telephone: 02 4964 8266
Facsimile: 02 4966 5958

Locations of share registries
Sydney
Computershare Investor Services Pty Limited
Level 3 60 Carrington Street
Sydney NSW 2000

Telephone: 02 8234 5000
Facsimile: 02 8216 5500

Stock Exchange
The Company is listed on the Australian Stock Exchange. The Home Exchange is Sydney.

Other information
Hydromet Corporation Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

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for the year ended 30 June 2001

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Chairman's report

The consolidated entity incurred a loss of $1.658 million for the year. The result was an improvement over the previous year and reflects the impact of long lead times required in establishing processes which require regulatory approvals. During the year, the Company reached a major milestone in its environmental business by securing and commercialising two major contracts, valued at approximately $16 million. In order to establish these contracts the consolidated entity incurred significant development and commissioning costs of approximately $0.52 million during the year, which were absorbed in normal operating expenditure. This cost, along with depreciation and amortisation charges of $1.16 million, are reflected in the losses reported for the year. Although the improving revenue from these projects began to emerge in the last quarter of the year, their contribution was not sufficient to offset the earlier results.

We successfully established a unique immobilisation process for lead and heavy metals for our client Rio Tinto with a contract worth $11.5 million. The process was commissioned in January 2001. NSW EPA also granted full ongoing approval to the Company in June 2001. Revenue earnings from the project reached $600,000 in June and have since increased to design processing rates. At current treatment rates the project will be completed by December 2002.

A contract was signed with Falconbridge Nikkelverk in Norway to process and recycle precious metals and selenium. The contract is valued at $4.5 million. The commercial processing of the material again commenced in the latter part of the year. Revenue from the project will continue to flow until the end of December 2002.

Furthermore, we were successful in obtaining NSW EPA approval for recycling of Electric Arc Furnace (EAF) Dust generated by a local steel mill. This breakthrough has opened up the path to a potential long-term contract with the leading steel company. The project has the potential to generate gross revenue of approximately $25 million by way of treatment fees and sale of zinc sulphate over an initial five year contract with potential for a further five year option.

A comprehensive review of the consolidated entity's operations during the financial year is contained in the Directors' Report.

Outlook for the future

Based on current revenue streams and unaudited operating results achieved for the two months to August 2001, we anticipate a profitable outcome for the September quarter with further improvements expected to increase the position further during the financial year 2001/2002.

At 30 June 2001 the consolidated entity had cash reserves of $2.165 million and no borrowed funds other than motor vehicle finance leases and insurance premium funding. With improved operating results expected during the next financial year it is anticipated that the cash position will improve during the period.

The Company has a number of additional proposals under consideration by clients covering a range of recycling and immobilisation technologies.

Future challenge and strategy

Having established significant contracts with major clients, our Company's next challenge is to secure further contracts on a sustainable basis beyond December 2002. Our management team is actively exploring such opportunities.

The main factors, which will assist the future growth of our business, are:

- our growing reputation with the generators and the regulatory authorities;
- our recent achievements at technical and operational levels;
- our ability to provide solutions to complex environmental problems faced by clients; and
- our freehold licensed facilities capable of receiving and processing materials at short notice.

Some of the projects which are specifically targeted for sustainable and long-term business are:

- treatment and recycling of steel mill dust;
- aluminium smelter pot lining recycling;
- growth of our cobalt chemical business on a sustainable basis by treating residues as well as feed from a clean feed source; and
- recycling of lead contaminated waste.

These important projects have sustainable long term potential and will contribute significantly to the future growth of the group. They will also provide the additional financial and technical resources necessary to bring new projects to the Company and develop the facilities to optimum levels of operation and performance. Long term core projects facilitate the continuing investment in research and development required to offer solutions to waste disposal issues.

Stanton project

As previously reported, the Company through one of its controlled entities acquired, with shareholders approval, a mineral prospect in the Northern Territory known as the Stanton Prospect, containing cobalt sulphide mineralisation. The acquisition was achieved by issuing 6 million shares restricted and 6 million options restricted to ChemMet Pty Ltd.

Since acquisition and as a result of independent assessment, the project has been upgraded to an indicated resource status with a cobalt equivalent value of $83 million. A preliminary scoping study carried out recently revealed that there is a potential for net profit of between $17.26 to $26.63 million after producing cobalt chemicals at our Tomago operations utilising this feed concentrate. The Company is now seeking an experienced joint venturer or farm-in partner to develop this valuable resource, so that the Company can enjoy the consistency of a long term feed supply for our cobalt business.

The Company has produced cobalt chemicals in the past through the treatment of cobalt bearing residues from Pasminco and other smelter sources. Although the business was successful, sustainability was limited due to the inconsistent supply of residue feed from the generator. It is expected that the Company will be able to sustain a long-term future in this growing cobalt chemical business once a suitable partner is sought to develop the Stanton Prospect.

Conclusion

The Company's business expansion strategy is to continue to develop recycling and immobilisation options along with waste recycling and production of metal chemicals from waste streams and the Company is confident of further growth over the coming years.

While this financial year has been encouraging compared to previous years with a number of commercial breakthroughs which will lay the foundation for future growth, it has also been a challenging year with a demanding workload for management and staff. On behalf of the Board of Directors I would like to sincerely thank all staff for their continued dedication and commitment to the Company's development. I would also like to thank our shareholders for their patience and continuing support. We look forward to a more prosperous year ahead.

Dr Lakshman Jayaweera
Chairman

Dated this 27 day of September 2001.

Hydromet Corporation Limited and its controlled entities
for the year ended 30 June 2001

Directors' report

The directors present their report together with the financial report of Hydromet Corporation Limited ("the Company") and the consolidated financial report of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2001 and the auditor's report thereon.

Directors

The directors of the Company at any time during or since the end of the financial year are:

Name and qualifications	**Experience and special responsibilities**
Dr Lakshman D Jayaweera MSc, PhD Chairman Executive Director	Dr Jayaweera is one of the founders and the head of the technical team of the Company. He holds a PhD in Chemical Engineering and has considerable experience in mineral processing and hazardous waste recycling. Director since 1991- Deputy Chairman from September 2000 to January 2001 and appointed Chairman in January 2001.
Mr Gregory W Wrightson Executive Director and Managing Director	Mr Wrightson has over 18 years experience in chemical manufacturing and was appointed General Manager of the Company in 1997. Director since 1998 - appointed Managing Director in September 2000.
Mr Stephen H Kwan, MPhil, ATI, MBIM Non-Executive Director	Mr Kwan has over 26 years experience in metals and chemicals trading and is a co-founder of the Kee Shing Group in Hong Kong. Mr Kwan is a non-executive director of Kee Shing (Holdings) Limited, a related entity of the Company. Member of the Audit and Remuneration Committee. Director since 1991.
Mr Pipvide S Tang, MBA, CPA, FCCA Non-Executive Director	Mr Tang has more than 20 years experience in accounting and corporate finance. Member of the Audit and Remuneration Committee. Director from 1991 to 1996 and since 1997. Mr Tang was an Executive Director until August 2000.
Mr Barry W O'Neill, D.App.Chem, A.SwTC, FAICD Independent Non-Executive Director	Mr O'Neill has extensive experience in chemical manufacturing. Chair of the Audit and Remuneration Committee. Director since 1998 –Chairman from 1999 to January 2001.

Directors' meetings

The number of directors' meetings (including committee meetings of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

	Board meetings		Audit and remuneration committee meetings	
Directors	**Number eligible to attend**	**Number attended**	**Number eligible to attend**	**Number attended**
Mr B W O'Neill	9	6	2	2
Mr S H Kwan	9	5	2	2
Mr G W Wrightson	9	9	-	-
Dr L D Jayaweera	9	9	-	-
Mr P S Tang	9	9	2	2

Principal activities

The principal activities of the consolidated entity during the course of the financial year were:

- the processing of industrial residues and the manufacture of value added products therefrom;
- the manufacture of chemicals and resource recovery;
- the provision of consulting services; and
- the development of environmental, remediation and mineral processing technologies.

There were no significant changes in the nature of the activities of the consolidated entity during the year.

Review and results of operations

Consolidated results

The consolidated loss from ordinary activities for the year attributable to the members of the Company was $1,658,547 (2000: loss $2,294,839).

The Company received full approval for its Lead Immobilisation Process and commenced the Falconbridge precious metals residue recycling project during the year ended June 2001. The combined value of these projects is approximately $16 million and are expected to be completed by December 2002. We continue to optimise these processes to improve productivity rates and costs to maximise the outcomes from the projects and continue to build valuable experience for future problematic disposal projects.

Considerable attention has been paid to follow up projects for Unanderra and Tomago beyond the current activities with proposals submitted to the steel and aluminium smelter industries to secure long term treatment agreements to process the ongoing emergence of recyclable residues from their respective operations. Other complimentary business opportunities are being pursued within the waste treatment and metal recovery industries.

It is important to the Company's strong future growth in the waste recycling industry to develop our business base through complimentary and synergistic activities. By so doing, we can more easily accommodate the on going research and developments costs associated with projects of interest to the group. We have begun to examine possibilities in either acquisition or joint venture arrangements. Further effort will be devoted to this strategy in 2001/2002.

The consolidated entity's business elements and relevent revenue contributions for the year included:

- treatment fees earned $4.5 million;
- finished product sales $1.0 million;
- other revenue $0.8 million; and
- total revenue earned for the year $6.3 million.

Representing an increase of $1 million over the period.

Contribution to revenue from individual sites was as follows:

- Unanderra 74%;
- Minmet 10%;
- Tasmania 7%; and
- Other 9%.

HydroMet Operations (Southern) Limited – Unanderra NSW

- Conducted substantial plant trial processing using the Lead Immobilisation Process to support submissions for approval from NSW Environment Protection Authority.

- Commenced stage 1 limited scale processing in August 2000 and full scale commissioning in January 2001.

- Full EPA Lead Immobilisation Process approval was received in June 2001.

- Plant performance since June 2001 has exceeded expectations.

- Process optimisation variation to improve processing rates and economics was approved by EPA in September 2001.

- Conducted research and development plant trials on Electric Arc Furnace (EAF) dust containing Zinc to establish the recoverability and economics of the Zinc content for use in producing Zinc Sulphate chemicals. A commercial proposal was submitted to the prospective client in August 2001.

- Tin sludge treatment and Fluoride Immobilisation volumes decreased in 2001 along with expectations associated with reduced arisings from our client.

MinMet Operations Pty Ltd – Tomago NSW

- Minmet produced Zinc Sulphate and Copper Sulphate during the year with varying levels of success due primarily to the high cost of Zinc and Copper feed stocks.
- Plant testwork continued on precious metal residue from Falconbridge Norway and ongoing research and development work was carried out on spent pot - linings from the aluminium industry.
- Approval to carry out this waste treatment recovery process was received from NSW and Commonwealth EPA's in 2001.
- Equipment installation began in April 2001 in preparation for processing of the Falconbridge residue with commissioning commenced in June 2001.
- A commissioning report has since been submitted to NSW EPA. Processing is continuing with 200 tonnes of the estimated 600 tonne stockpile having been received.
- The project is valued at $4.5 million and is the main activity of the Tomago facility.
- Other processing opportunities are being considered for the site.

HydroMet Operations Limited – Hobart Tasmania

- Filtration of Manganese mud continued at Hobart with the contract renegotiated in August 2001 and extended to 31 July 2002.
- Other waste treatment projects have been discussed with Pasminco during the year. With developments at Pasminco over the recent months, new projects are viewed in accordance with their level of priority to Pasminco. Projects examined include:
  - a cobalt recovery project; and
  - a mercury immobilisation process.

On the 19 September 2001 an Adminstrator was appointed by the Board of Pasminco to resolve the difficult issues faced by the company. From Hydromet's viewpoint we have been advised that there will be no change to operations at this time and as such the filtering service provided by Hydromet is continuing.

Stanton project

The Company through a controlled entity acquired a Mineral Exploration Lease (MEL) relating to a Cobalt deposit situated in the gulf country of the Northern Territory. The MEL was acquired from ChemMet Pty Ltd in accordance with shareholder approval of September 2000. The Company issued 6 million ordinary shares restricted and 6 million options restricted (exercisable at $0.15 cents per share) in consideration of the acquisition.

After receiving the results of an Identified Resource Study conducted in January 2001 the study reported that the total in situ Cobalt equivalent value of Stanton to be approximately $83 million. A further Scoping Study indicated profit estimates of between $16.26 to $26.83 million. The Company has moved to upgrade the lease from Exploration to Mine Lease covering the targeted area and a Mineral Retention Lease for the remaining area of the site.

Further infill drilling is expected to be carried out after the upgrade described above is received.

Other

The Company's operations in the treatment and recycling of industrial residues involves the generation of some process residues which require final further treatment or placement to another disposal or recycle provider. A provision for the disposal of these residues is maintained and re-examined every six months in a plan to remove the residues from stocks for treatment or outplacement and to revalue the provision taking account of changes in quantities and disposal/treatment costs. Under an ongoing management plan, the Company placed 2,760 tonnes of residues containing elements unsuitable or uneconomical to our recovery processes. In so doing the Company has removed the liability for these materials and has released valuable storage capacity for beneficial utilisation.

The Company sold its shareholding in Hydromet Environmental Recovery Limited (HERL) in the United States during the year for AUD $549,446. Due to lack of activity and the loss of its Environmental Licence the investment had been written down to a nominal value $1 in 1997 based on the Board's expectation that the business would not continue. Under a reconstruction plan implemented by the HERL Board we received and accepted an offer for our parcel in September 2000. Final closure of the agreement was reached in April 2001.

The Board offered 5.385 million options to its employees in June 2001 in accordance with the Employee Share Option Plan. Acceptance of all but one offer was received in July 2001.

The Company is continuing to investigate the potential for joint venture opportunities with other major waste management companies with a view to maximising the utilisation of the facilities and processes available at our three facilities.

With the Company's key strategy to develop long term recycling projects focus will remain on identifying waste streams such as those generated in the steel and aluminium industries along with other known areas of interest to the Company.

Dividends

No dividends have been paid or declared by the Company since the end of the previous financial year.

State of affairs

In August 2000 the Company made a placement of 34,000,000 ordinary shares with an aggregate value of $1.46 million for implementation of the Lead Immobilisation Process, further evaluation of the Stanton Prospect and other projects.

The Company issued 6 million ordinary shares restricted and 6 million options restricted to ChemMet Pty Ltd in consideration for the acquisition of the Stanton Prospect tenement as approved by shareholders in September 2000.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

Environmental regulation

The Company acknowledges the importance of its environmental obligations and employs effective systems and procedures to protect those interests and to minimise risk to its employees, the community and the environment.

All the operating sites of the consolidated entity are subject to licence requirements issued under the Protection of Environment Operations Act 1997.

In the business of processing industrial residues and manufacturing chemical products, the Company's operations include treatment processes, disposal of by-products, discharge of effluent and transportation of materials that are subject to approvals from and the close scrutiny of the Commonwealth and State Environmental Protection Authorities.

The site managers are responsible for monitoring compliance with the requirements of environmental regulations and with specific requirements of site environmental licence conditions. Performance against licence conditions are reported to the various state regulators on a regular basis and were substantially achieved across all operations. There has been no material non-compliance in relation to these licences' requirements during the financial year.

Events subsequent to balance date

The Company renewed its manganese mud filtration service agreement with Pasminco Hobart Smelter in August 2001. The contract is for twelve months to 31 July 2002 and is valued at $469,596. On 19 September 2001 Pasminco announced the appointment of a Voluntary Administrator to manage the affairs of the Company. At the date of this report we have been advised that operations will be continuing at the Hobart Smelter and are continuing to provide the filtration service.

Likely developments

Having successfully implemented two major projects valued at $16 million during the financial year the Directors and management acknowledge that the projects will be completed by December 2002 and that follow on projects are important to the long term sustainability of the Company. In the 1999/2000 financial year recognising the importance of sustainable growth a strategy was adopted to concentrate on specific potential long term projects for the group.

Projects pursued included, spent potlinings from the aluminium industry and steel mill dust from the steel industry. The Company has carried out extensive recycling/immobilisation evaluation work on these residues over a number of years. In the 2000/2001 financial year, the Company submitted proposals for both projects to the generators. One of the proposals is currently in final negotiation stage with the other remaining under consideration.

A number of other business opportunities have been examined including the development of closer liaison with other major waste industry companies with a view to joint venture possibilities and maximum utilisation of the Company's substantial processing and storage capabilities associated with the three operating facilities.

The Stanton prospect will be upgraded from a Mine Exploration Lease to a Mine and Retention Lease over the next six months with further site evaluation once revised leases are received.

Directors' and senior executives' emoluments

The Audit and Remuneration Committee is responsible for making recommendations to the Board on remuneration policies and packages applicable to the Board members and senior executives of the Company. The broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest quality. Consideration is specifically made to the current operating situation and environment of the Company.

Details of the nature and amount of each major element of the emoluments of each director of the Company and each officer of the Company and the consolidated entity are:

	Base emolument $	Non-cash benefits $	Super contributions $	Total $
Director				
Mr BW O'Neill	20,000	7,524	1,600	29,124
Mr SH Kwan	20,000	7,524	1,600	29,124
Mr GW Wrightson	136,833	13,832	10,146	160,811
Dr LD Jayaweera	135,000	17,299	10,800	163,099
Mr PS Tang	34,153	9,257	2,732	46,142
Executive officer				
Mr NW Smith *Company secretary*	67,187	-	5,375	72,562

Options

During or since the end of the financial year, the Company has not granted options over unissued ordinary shares to its directors or executive officers of the Company as part of their remuneration or pursuant to the Employee Share Option Plan approved by shareholders in the general meeting held on 29 September 2000.

Consideration to Chemmet Pty Ltd, a director related entity, for the acquisition of the Stanton Prospect tenement consisted of:

- 6,000,000 ordinary shares restricted to 8 June 2002, fully paid to 4.0 cents per share; and
- 6,000,000 options restricted to 8 June 2002, expiring on 28 August 2003, with an exercise price of 15.0 cents per option.

Directors' interests

The relevant interest of each director in the shares issued by the companies within the consolidated entity, as notified by the directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

Directors	**Number of ordinary fully paid shares**
Mr BW O'Neill	-
Dr LD Jayaweera	4,138,250
Mr SH Kwan	46,000
Mr PS Tang	20,000
Mr GW Wrightson	100,000

Indemnification and insurance of officers

Since the end of the previous financial year the Company has paid insurance premiums in respect of directors' and officers' liability and legal expenses insurance contracts, for current directors and officers, including executive officers of the Company and directors, executive officers and secretaries of its controlled entities. The insurance premiums relate to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contracts.

Other than the matter discussed above, the Company has not, during or since the financial year, in respect of any person who is or has been an officer of the Company or a related body corporate:

- indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings; or
- paid or agreed to pay a premium in respect of a contract insuring against a liability incurred as an officer for the costs or expenses to defend legal proceedings.

Dated at Wollongong this 27 day of September 2001.

Signed in accordance with a resolution of the directors:

GW Wrightson
Managing Director

Corporate governance statement

This statement outlines the main Corporate Governance practices that were in place throughout the financial year, unless otherwise stated. These practices are dealt with under the following headings: Board of Directors and the Audit and Remuneration Committee, business risk, internal control framework, ethical standards and the role of shareholders.

Board of Directors and the Audit and Remuneration Committee

The Board is responsible for the overall Corporate Governance of the consolidated entity including its strategic direction, establishing goals for management and monitoring the achievement of these goals. The Board seeks to discharge these responsibilities in a number of ways.

The Board holds seven scheduled meetings each year, in addition to extraordinary and other meetings at such times as necessary to address specific matters that may arise.

The Chairman and managing director prepares meeting agendas. Standing items include the managing director's report, financial reports, strategic matters, governance and compliance. Papers are circulated in advance. The directors have access to all executives and regularly visit operations facilitating contact with a wider group of employees.

The Board has established an Audit and Remuneration Committee, which operates under a charter approved by the Board. The responsibility for the operation and administration of the consolidated entity is delegated by the Board to the managing director and the executive team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has procedures in place to assess the performance of the managing director and the executive team.

The names of the directors of the Company in office at the date of this Statement are set out in the Directors' Report on page four of this financial report.

Each director has the right, with prior approval of the Audit and Remuneration Committee, to seek independent professional advice at the expense of the Company.

Directors appointed to the Board are subject to election by shareholders at the following annual general meeting and thereafter (other than the Managing Director) are subject to re election at least every three years. The tenure for executive directors is linked to their holding of executive office.

The current base remuneration for non-executive directors, including the Chair, is $20,000 per annum. No additional payment is made to members of the Audit and Remuneration Committee.

The composition of the Board is determined by the Audit and Remuneration Committee and will be reviewed regularly to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, through whatever cause, or it is considered the Board could benefit from the services of a new director with particular skills, the committee will select a panel of candidates with the appropriate expertise and experience. The Board then appoints the most suitable candidate who must stand for election at the next general meeting of shareholders. At each annual general meeting of members one-third of the Board automatically retire by rotation and are eligible for re-appointment by the members.

At the date of this statement, the Board comprises one independent non-executive director, two non-executive directors and two executive directors, one of which is the Chairman.

The members of the Audit and Remuneration Committee during the year were Messrs BW O'Neill (independent non-executive director), SH Kwan and PS Tang (both non-executive directors). The role of the Audit and Remuneration Committee includes:

- nomination of new directors;
- to determine and review the remuneration of directors and executive officers of the Company;
- to establish and maintain a framework of internal control and appropriate ethical standards for management;
- to give the Board of Directors additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in the financial report;
- monitor corporate risk assessment processes;
- liaising with the external auditors and ensuring that the annual and half-year statutory audits are conducted in an effective manner;
- review the proforma half yearly and pro forma preliminary final report with the external auditors prior to lodgement of the documents with the ASX and any significant adjustments required as a result of the audit; and
- review the performance of the external auditors on an annual basis and to meet with them prior to announcement of results.

Conflict of interest

In accordance with the Corporations Act 2001 and the Company's constitution, directors must keep the Board informed on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board considers that a significant conflict exists, the director does not receive the relevant board papers and is not present at the meeting whilst the item is considered.

Business risk

The Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks. Once a risk is identified, the Board will instigate an action plan. Corrective action will be taken as soon as practicable. Major business risks arise from action by customers, competitors, government policy changes, the impact of exchange rate and product price movements, difficulties in sourcing feed materials and problems in the development of technical processes.

Internal control framework

The Board acknowledges that it is responsible for the overall internal control framework but recognises that no cost effective internal control system will preclude all errors and irregularities. The system is based upon written procedures, policies and guidelines, organisational structures that provide an appropriate division of responsibility and the careful selection and training of qualified personnel.

In this regard, the Company has an Environmental Policy Statement, Occupational Health and Safety Policy Statement and Quality Policy Statement which set out the standards in accordance with which each director, officer and employee of the Company is expected to act. The requirement to comply with these policies is communicated to all employees.

Ethical standards

It states in the Quality Policy Statement that our business ethics will be conducted to the highest standards embracing fairness, honesty, integrity, loyalty and trust. All directors, officers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

The role of shareholders

The Board of Directors aims to ensure that the shareholders, on behalf of whom they act, are informed of all major information necessary to assess the performance of the Company. Information is communicated to the shareholders through:

- the annual report which is distributed to all shareholders;
- the half-yearly report announced to the Australian Stock Exchange;
- the annual general meeting and other meetings so called to obtain approval for Board action as appropriate; and
- newsletters distributed to all shareholders.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategy and goals.

The shareholders are responsible for voting on the appointment of directors.

Hydromet Corporation Limited and its controlled entities

Statements of financial performance
for the year ended 30 June 2001

		Consolidated		The Company	
	Note	**2001 $**	**2000 $**	**2001 $**	**2000 $**
Revenue from sale of goods	3	1,052,449	2,530,410	-	-
Revenue from rendering of services	3	4,504,299	2,283,573	-	5,133
Other revenues from ordinary activities	3	778,837	516,766	112,119	176,236
Total revenue	3	6,335,585	5,330,749	112,119	181,369
Raw materials and consumables used		(1,316,809)	(1,168,255)	-	-
Direct production costs		(1,614,561)	(786,159)	-	-
Employee expenses		(1,965,925)	(1,905,195)	(758,862)	(655,400)
Depreciation and amortisation expenses	4	(1,158,514)	(1,124,945)	(28,424)	(35,286)
Borrowing costs	4	(13,181)	(35,120)	(8,375)	(10,822)
Other expenses from ordinary activities		(1,925,142)	(2,605,914)	(1,297,785)	(912,129)
Loss from ordinary activities before related income tax expense		(1,658,547)	(2,294,839)	(1,981,327)	(1,432,268)
Income tax (expense)/benefit relating to ordinary activities	5	-	-	-	-
Net loss		(1,658,547)	(2,294,839)	(1,981,327)	(1,432,268)
Total changes in equity from non-owner related transactions attributable to the members of the parent entity		(1,658,547)	(2,294,839)	(1,981,327)	(1,432,268)

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 18 to 50.

Hydromet Corporation Limited and its controlled entities

Statements of financial position as at 30 June 2001

	Note	Consolidated 2001 $	Consolidated 2000 $	The Company 2001 $	The Company 2000 $
Current assets					
Cash	33(a)	2,165,617	1,917,018	1,217,998	708,449
Receivables	8	1,115,228	1,088,956	42,231	17,395
Inventories	10	217,450	210,405	-	-
Total current assets		3,498,295	3,216,379	1,260,229	725,844
Non-current assets					
Receivables	8	-	-	8,351,494	8,563,113
Other financial assets	9	-	-	1,977,971	2,745,811
Property, plant and equipment	11	7,458,518	7,350,783	76,830	58,393
Exploration, evaluation and development expenditure	12	292,199	-	21,235	-
Intangibles	13	1,397,322	1,641,215	-	-
Total non-current assets		9,148,039	8,991,999	10,427,530	11,367,317
Total assets		12,646,334	12,208,378	11,687,759	12,093,161
Current liabilities					
Payables	14	1,568,647	1,098,248	88,864	159,274
Interest-bearing liabilities	15	26,272	31,283	26,272	17,757
Provisions	16	1,867,204	1,864,782	154,317	126,970
Total current liabilities		3,462,123	2,994,313	269,453	304,001
Non-current liabilities					
Interest-bearing liabilities	15	7,715	26,320	7,715	26,320
Provisions	16	643,600	625,202	40,430	30,727
Other liabilities	31(b)	-	-	2,893,599	2,903,124
Total non-current liabilities		651,315	651,522	2,941,744	2,960,171
Total liabilities		4,113,438	3,645,835	3,211,197	3,264,172
Net assets		8,532,896	8,562,543	8,476,562	8,828,989
Equity					
Contributed equity	17	59,228,603	57,599,703	59,228,603	57,599,703
Reserves	18	505,688	505,688	150,000	150,000
Accumulated losses	19	(51,201,395)	(49,542,848)	(50,902,041)	(48,920,714)
Total equity		8,532,896	8,562,543	8,476,562	8,828,989

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 18 to 50.

Hydromet Corporation Limited and its controlled entities

Statements of cash flows
for the year ended 30 June 2001

	Note	Consolidated 2001 $	Consolidated 2000 $	The Company 2001 $	The Company 2000 $
Cash flows from operating activities					
Cash receipts in the course of operations		5,551,489	4,969,647	(3,145)	183,221
Cash payments in the course of operations		(6,240,005)	(6,090,086)	(1,293,501)	(1,149,323)
Interest received		102,942	110,034	71,511	17,037
Borrowing costs paid		(8,309)	(28,735)	(4,350)	(5,814)
Net cash used in operating activities	33(b)	(593,883)	(1,039,140)	(1,229,485)	(954,879)
Cash flows from investing activities					
Proceeds from loans to controlled entities		-	-	433,747	639,215
Proceeds from sale of non-current assets		96,108	45,800	17,272	-
Proceeds from sale of investments		549,446	-	-	-
Payments for exploration, evaluation and development expenditure		(52,199)	-	(21,235)	-
Payments for property, plant and equipment		(1,111,283)	(395,592)	(56,010)	(3,143)
Net cash provided by/(used in) investing activities		(517,928)	(349,792)	373,774	636,072
Cash flows from financing activities					
Lease payments		(28,490)	(32,563)	(23,640)	(24,586)
Proceeds from share placement		1,388,900	793,992	1,388,900	793,992
Net cash provided by financing activities		1,360,410	761,429	1,365,260	769,406
Net increase/(decrease) in cash held		248,599	(627,503)	509,549	450,599
Cash at the beginning of the financial year		1,917,018	2,544,521	708,449	257,850
Cash at the end of the financial year	33(a)	2,165,617	1,917,018	1,217,998	708,449

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 18 to 50.

1 Statement of significant accounting policies

The significant policies which have been adopted in the preparation of this financial report are:

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of non-current assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy, are consistent with those of the previous year.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

(b) Reclassification of financial information

Some line items and sub-totals reported in the previous financial year have been reclassified and repositioned in the financial statements as a result of the first time application on 1 July 2000 of the revised standards AASB 1018 *Statement of Financial Performance*, AASB 1034 *Financial Report Presentation and Disclosures* and the new AASB 1040 *Statement of Financial Position*.

Adoption of these standards has resulted in the transfer of the reconciliation of opening to closing accumulated losses from the face of the statement of financial performance to Note 19.

1 Statement of significant accounting policies (cont'd)

(c) Principles of consolidation

Controlled entities

The financial statements of controlled entities are included from the date control commences until the date control ceases.

Associates

Associates are those entities, other than partnerships, over which the consolidated entity exercises significant influence and which are not intended for sale in the near future.

In the consolidated financial statements investments in associates are accounted for using equity accounting principles. Investments in associates are carried at the lower of the equity accounted amount and recoverable amount. The consolidated entity's equity accounted share of the associates' net profit or loss is recognised in the consolidated statement of financial performance from the date significant influence commences until the date significant influence ceases. Other movements in reserves are recognised directly in consolidated reserves.

Transactions eliminated on consolidation

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

(d) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST). Exchanges of goods or services of the same nature and value without any cash consideration are not recognised as revenues.

Sale of goods

Revenue from the sale of goods is recognised (net of returns, discounts and allowances) when control of the goods passes to the customer.

Rendering of services

Revenue from rendering services is recognised when the treated material reaches a condition specified in the contract and/or the licence issued by the state environmental protection authority.

Interest revenue

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

1 Statement of significant accounting policies (cont'd)

(d) Revenue recognition (cont'd)

Sale of non-current assets

The gross proceeds of non-current asset sales are included as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

Any related balance in the asset revaluation reserve is transferred to the capital profits reserve on disposal.

Research and development grants

Where a grant is received relating to research and development costs that have been expensed, the grant is recognised as revenue.

(e) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(f) Foreign currency

Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change.

1 Statement of significant accounting policies (cont'd)

(g) Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings, foreign exchange losses net of hedged amounts on borrowings, including trade creditors and lease finance charges.

Ancillary costs incurred in connection with the arrangement of borrowings are capitalised and amortised over the life of the borrowings.

Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the assets. Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of borrowing costs capitalised is those incurred in relation to that borrowing, net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

Exploration and evaluation expenditure carried forward relating to areas of interest which have not reached a stage permitting reliable assessment of economic benefits are not qualifying assets.

(h) Taxation

Income tax

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the balance sheet as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to entities with tax losses are only brought to account when their realisation is virtually certain. The tax effect of capital losses are not recorded unless realisation is virtually certain.

1 Statement of significant accounting policies (cont'd)

(i) Acquisitions of assets

All assets acquired including property, plant and equipment and intangibles other than goodwill are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise expensed.

Where settlement of any part of cash consideration is deferred, the amounts payable are recorded at their present value, discounted at the rate applicable to the company if a similar borrowing were obtained from an independent financier under comparable terms and conditions.

The costs of assets constructed or internally generated by the consolidated entity, other than goodwill, include the cost of materials and direct labour. Borrowing costs are capitalised to qualifying assets as set out in Note 1(g).

Expenditure, including that on internally generated assets other than research and development costs, is only recognised as an asset when the entity controls future economic benefits as a result of the costs incurred, it is probable that those future economic benefits will eventuate, and the costs can be measured reliably. Costs attributable to feasibility and alternative approach assessments are expensed as incurred.

Research and development costs

Research and development expenditure is expensed as incurred except to the extent that its recoverability is assured beyond any reasonable doubt, in which case it is deferred.

Subsequent additional costs

Costs incurred on assets subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the consolidated entity in future years. Costs that do not meet the criteria for capitalisation are expensed as incurred.

(j) Revisions of accounting estimates

Revisions to accounting estimates are recognised prospectively in current and future periods only.

1 Statement of significant accounting policies (cont'd)

(k) Receivables

The collectibility of debts is assessed at balance date and specific provision is made for any doubtful accounts.

Trade debtors

Trade debtors to be settled within 60 days are carried at amounts due.

(l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost includes direct materials, direct labour, other direct variable costs and allocated production overheads necessary to bring inventories to their present location and condition, based on normal operating capacity of the production facilities.

Manufacturing activities

The cost of manufacturing inventories and work-in-progress are assigned on a first-in, first-out basis. Costs arising from exceptional wastage are expensed as incurred.

Net realisable value

Net realisable value is determined on the basis of each inventory line's normal selling pattern. Expenses of marketing, selling and distribution to customers are estimated and are deducted to establish net realisable value.

(m) Investments

Controlled entities

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount. Dividends and distributions are brought to account in the statement of financial performance when they are declared by the controlled entities.

Associates

In the Company's financial statements investments in associates are carried at the lower of cost and recoverable amount. Investments in associates are accounted for using equity accounting principles. Where the carrying amount of the investment is zero, application of the equity method is discontinued and the investment recorded at zero.

Other companies

Investments in other listed entities are measured at fair value, being the current quoted market prices.

Investments in other unlisted entities are carried at the lower of cost and recoverable amount. Dividends are brought to account as they are received.

1 Statement of significant accounting policies (cont’d)

(n) Leased assets

Leases under which the Company or its controlled entities assume substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases

Finance leases are capitalised. A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease.

Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are expensed. Contingent rentals are expensed as incurred. Also refer to Note 21.

Operating leases

Payments made under operating leases are expensed on a straight line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

(o) Exploration, evaluation and development expenditure

Exploration, evaluation and development costs are accumulated in respect of each separate area of interest.

Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Development costs related to an area of interest are carried forward to the extent that they are expected to be recouped either through sale or successful exploitation of the area of interest.

When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period the decision is made.

(p) Intangibles

The cost of the intangible is amortised over the period in which the related benefits are expected to be realised. The carrying amount of the intangible is reviewed at the end of each financial year. Where the balance exceeds the value of expected future benefits, the difference is charged to the statement of financial performance. The amortisation rate applied is 11.0% on original cost.

(q) Recoverable amount of non-current assets valued on cost basis

The carrying amounts of non-current assets valued on the cost basis, other than exploration and evaluation expenditure carried forward (refer Note 1(o)) are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is recognized as an expense in the net profit or loss in the reporting period in which it occurs.

Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets.

In assessing recoverable amounts of non-current assets the relevant cash flows have not been discounted to their present value, except where specifically stated.

1 Statement of significant accounting policies (cont'd)

(r) Depreciation and amortisation

Complex assets

The components of major assets that have materially different useful lives, are effectively accounted for as separate assets, and are separately depreciated.

Useful lives

All assets, including intangibles, have limited useful lives and are depreciated/amortised using the straight line method over their estimated useful lives, with the exception of finance lease assets which are amortised over the term of the relevant lease, or where it is likely the consolidated entity will obtain ownership of the asset, the life of the asset.

Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until commercial production commences.

Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation and amortisation are expensed, except to the extent that they are included in the carrying amount of another asset as an allocation of production overheads.

The depreciation rates used for each class of asset are as follows:

Property, plant and equipment	**2001 %**	**2000 %**
Buildings	2.5	2.5
Plant and equipment	13-25	13-25
Office equipment and fixtures	13-27	13-27
Motor vehicles	15	15
Leased vehicles and machinery	15	15

1 Statement of significant accounting policies (cont'd)

(s) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payables are normally settled within 60 days.

(t) Employee entitlements

Wages, salaries, annual leave and sick leave

The provision for employee entitlements to wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided up to the balance date, calculated at undiscounted amounts based on current wage and salary rates and includes related on-costs.

Long service leave

The provision for employee entitlements to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided up to balance date.

The provision is calculated using estimated future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government securities at balance date which most closely match the terms of maturity of the related liabilities.

Superannuation

The Company and other controlled entities contribute to employee nominated superannuation funds. Contributions are charged against income as they are made.

(u) Provisions

A provision is recognised when a legal or constructive obligation exists as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions for disposal of residues and site clean up

Provisions are made for estimated costs relating to the remediation of soil, groundwater and untreated waste as soon as the need is identified.

Provisions have been determined on an undiscounted basis on the basis of current costs, current legal requirements and current technology. Changes in estimates are dealt with on a prospective basis.

(v) Derivatives

It is consolidated entity policy not to use derivative financial instruments to hedge cash flows subject to interest rate, foreign exchange rate and commodity price risks. These risks are monitored and managed closely on a daily basis in order to minimise the exposures of the consolidated entity. Refer Note 32.

2 Change in accounting policy

Revaluation of non-current assets

The consolidated entity has applied the revised AASB 1041 *Revaluation of Non-Current Assets* for the first time from 1 July 2000. The standard requires each class of non-current asset to be measured on either the cost or fair value basis. The revised AASB 1041 does not apply to inventories, foreign currency monetary assets, goodwill, investments accounted for using the equity method, deferred tax assets and other assets measured at net market value where the market value movements are recognised in the statement of financial performance.

The revised AASB 1041 requires for each class of property, plant and equipment a reconciliation of the carrying amount at the beginning of the reporting period to the carrying amount at year end. Refer Note 11. Comparative amounts for these reconciliations are not required.

The consolidated entity has applied the revised AASB 1041 as follows:

Freehold land

The consolidated entity has adopted the cost basis for land and has deemed the cost of the freehold land to be equal to the carrying value of the freehold land as at 1 July 2000, except for land already written down to recoverable amounts lower than original cost. The carrying value brought forward as at 1 July 2000 comprised $418,606 carried at cost of acquisition and $1,375,974 carried at independent valuation 1996.

Buildings

The consolidated entity has adopted the cost basis and has deemed the cost of the buildings to be equal to the carrying value of the buildings as at 1 July 2000. The carrying value brought forward as at 1 July 2000 comprised $753,504 carried at cost of acquisition and $2,313,996 carried at independent valuation 1996, being $2,697,773 net of depreciation.

The change in accounting policy has no financial effect in the current or prior financial years. As a consequence of making this election on the adoption of the revised AASB 1041 the balance of the asset revaluation reserve at 1 July 2000 related to land and buildings which is no longer available for asset write-downs is $355,688.

Other financial assets

The Company has continued to apply the cost basis of valuation for shares and units in controlled entities and for unlisted shares in associates.

The consolidated entity has continued to adopt the fair value basis of valuation for listed shares in other corporations.

The consolidated entity has continued to apply the cost basis of valuation to unlisted shares in other entities.

Other non-current assets

The consolidated entity has continued to apply the cost basis for other non-current assets such as receivables, plant and equipment and intangibles.

	Consolidated		The Company	
	2001 $	2000 $	2001 $	2000 $

3 Revenue from ordinary activities

Revenue from operating activities				
■ Sale of goods	1,052,449	2,530,410	-	-
■ Treatment charges	4,453,909	2,145,835	-	-
■ Freight income	50,390	131,384	-	-
■ Foreign currency gain	-	6,354	-	5,133
	5,556,748	4,813,983	-	5,133
Other revenue				
■ Gross proceeds on sale of non-current assets	96,108	45,800	17,272	-
■ Gross proceeds on sale of investment	549,446	-	-	-
■ Interest received	102,942	110,034	71,511	17,037
■ Rent received	-	8,400	-	-
■ Research and development grant	22,430	158,999	22,430	158,999
■ Diesel fuel rebate	-	180,326	-	-
■ Other	7,911	13,207	906	200
	778,837	516,766	112,119	176,236
Total revenue from ordinary activities	6,335,585	5,330,749	112,119	181,369

4 Loss from ordinary activities before income tax expense

Loss from ordinary activities before income tax has been arrived at after charging/(crediting) the following items:

Cost of goods sold	665,649	1,888,420	-	-
Borrowing costs paid or payable in respect to:				
■ finance lease	4,872	6,385	4,025	5,008
■ financial institutions	6,136	5,814	4,350	5,814
■ others	2,173	22,921	-	-
	13,181	35,120	8,375	10,822

	Note	Consolidated 2001 $	Consolidated 2000 $	The Company 2001 $	The Company 2000 $
4 Loss from ordinary activities before income tax expense (cont'd)					
Depreciation of:					
■ buildings		75,985	74,189	-	-
■ plant and equipment		789,986	751,973	-	-
■ office equipment and fixtures		8,080	13,101	4,161	7,703
■ vehicles		22,420	30,102	6,113	9,433
Amortisation of:					
■ intangibles		243,893	237,430	-	-
■ leased vehicles and machinery		18,150	18,150	18,150	18,150
		1,158,514	1,124,945	28,424	35,286
Rental expenses on operating leases		130,218	134,104	7,917	7,959
Research and development costs		120	206,123	-	205,717
Provision for employee entitlements		60,942	90,600	37,050	56,925
Net foreign exchange loss		9,328	-	739	-
Net gain on sales of property, plant and equipment		(26,078)	(13,856)	(8,123)	-
Net gain on sale of investment	9(a)	(260,371)	-	-	-
Provision for diminution in investments provided/(written back)	9(a)	(289,075)	-	767,840	234,483

	Note	Consolidated 2001 $	Consolidated 2000 $	The Company 2001 $	The Company 2000 $

5 Taxation

(a) Income tax expense

	Note	Consolidated 2001 $	Consolidated 2000 $	The Company 2001 $	The Company 2000 $
Prima-facie income tax benefit calculated at 34% (2000: 36%) on the loss from ordinary activities		(634,068)	(826,142)	(673,651)	(515,616)
Increase/(decrease) in income tax benefit due to:					
■ non deductible/(assessable) items		357	(4,163)	357	(4,163)
■ non deductible depreciation and amortisation		108,757	112,183	-	-
■ non deductible/(assessable) diminution in value of investment		(98,286)	-	261,066	84,414
■ other non-deductible/(assessable) items		(63,456)	1,679	607	87,967
		(686,696)	(716,443)	(411,621)	(347,398)
Tax effect of losses not taken to account		686,696	716,443	411,621	347,398
		-	-	-	-

(b) Future income tax benefit not taken to account

	Note	Consolidated 2001 $	Consolidated 2000 $	The Company 2001 $	The Company 2000 $
The potential future income tax benefit arising from tax losses and timing differences has not been recognised as an asset because recovery of tax losses is not virtually certain	1(h)	8,548,979	11,493,915	4,275,893	4,685,017

The potential future income tax benefit will only be obtained if:

- the relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised, or the benefit can be utilised by another company in the consolidated entity in accordance with Division 170 of the Income Tax Assessment Act 1997;
- the relevant company and/or the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and
- no changes in tax legislation adversely affect the relevant company and/or the consolidated entity in realising the benefit.

	Consolidated		The Company	
	2001 $	2000 $	2001 $	2000 $

6 Dividend franking account

	2001 $	2000 $	2001 $	2000 $
Balance of franking credit account franked to 30% (2000: 34%)	8,184,054	6,808,583	1,963,324	1,633,354

The ability to utilise the franking account credits is dependent upon there being sufficient available profits to declare dividends.

7 Earnings per share

	2001	2000
Basic earnings per share (cents)	(0.958)	(1.674)
Diluted earnings per share (cents)	(0.956)	(1.674)
	No.	**No.**
Weighted average number of ordinary shares used in the calculation of basic earnings per share	173,223,437	137,086,901
Weighted average number of potential ordinary shares used in the calculation of diluted earnings per share	173,585,081	137,086,901

Classification of securities as potential ordinary shares

Options outstanding in relation to the acquisition of the Stanton Prospect have been classified as potential ordinary shares and included in diluted earnings per share only. Refer to Note 12(a).

	Note	Consolidated 2001 $	Consolidated 2000 $	The Company 2001 $	The Company 2000 $
8 Receivables					
Current					
Trade debtors		896,893	917,571	-	-
Less: Provision for doubtful debts		(18,747)	(18,747)	-	-
		878,146	898,824	-	-
Sundry debtors		237,082	190,132	42,231	17,395
		1,115,228	1,088,956	42,231	17,395
Non-current					
Loans to controlled entities		-	-	33,902,075	34,113,694
Less: Provision for doubtful debts		-	-	(25,550,581)	(25,550,581)
	31(b)	-	-	8,351,494	8,563,113
Loans to associated company	22	194,510	194,510	194,510	194,510
Less: Provision for doubtful debts		(194,510)	(194,510)	(194,510)	(194,510)
		-	-	-	-
		-	-	8,351,494	8,563,113
9 Other financial assets					
Non-current					
Shares in controlled entities - at cost	20	-	-	13,287,558	13,287,558
Less: Provision for diminution		-	-	(11,309,587)	(10,541,747)
		-	-	1,977,971	2,745,811
Shares in associated company - at cost	22	1,108,852	1,108,852	-	-
Less: Provision for diminution		(1,108,852)	(1,108,852)	-	-
		-	-	-	-
Shares in other corporations - at cost	(a)	-	6,446,720	-	-
Less: Provision for diminution		-	(6,446,720)	-	-
		-	-	-	-
		-	-	1,977,971	2,745,811

(a) During the year, the consolidated entity sold its investment in Hydromet Environmental Recovery Limited which had been previously written down to zero.

	Consolidated		The Company	
	2001 $	2000 $	2001 $	2000 $

10 Inventories

	Consolidated 2001 $	Consolidated 2000 $	The Company 2001 $	The Company 2000 $
Current				
■ Raw materials and stores - at cost	132,680	109,684	-	-
■ Work in progress - at cost	17,457	48,273	-	-
■ Finished goods - at cost	67,313	52,448	-	-
	217,450	210,405	-	-

11 Property, plant and equipment

	Consolidated 2001 $	Consolidated 2000 $	The Company 2001 $	The Company 2000 $
Freehold land				
■ at cost	1,794,580	418,606	-	-
■ at independent valuation 1996	-	1,375,974	-	-
	1,794,580	1,794,580	-	-
Buildings				
■ at cost	3,090,261	753,504	-	-
■ at independent valuation 1996	-	2,313,996	-	-
Less: Accumulated depreciation	(445,712)	(369,727)	-	-
	2,644,549	2,697,773	-	-
Plant and equipment - at cost	13,888,463	13,026,274	-	-
Less: Accumulated depreciation	(10,995,711)	(10,298,993)	-	-
	2,892,752	2,727,281	-	-
Office equipment and fixtures - at cost	190,027	182,737	125,911	117,847
Less: Accumulated depreciation	(165,310)	(157,230)	(111,969)	(107,808)
	24,717	25,507	13,942	10,039
Motor vehicles - at cost	113,716	185,272	48,744	69,431
Less: Accumulated depreciation	(51,663)	(132,516)	(4,350)	(57,721)
	62,053	52,756	44,394	11,710
Leased vehicles and machinery - at cost	186,226	151,936	121,000	121,000
Less: Accumulated amortisation	(146,359)	(99,050)	(102,506)	(84,356)
	39,867	52,886	18,494	36,644
Total property, plant and equipment net book value	7,458,518	7,350,783	76,830	58,393

	Consolidated	The Company
	2001	**2001**
	$	**$**

11 Property, plant and equipment (cont'd)

Reconciliations

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

	Consolidated 2001 $	The Company 2001 $
Freehold land		
Carrying amount at beginning of year	1,794,580	-
Additions	-	-
Disposals	-	-
Carrying amount at end of year	1,794,580	-
Buildings		
Carrying amount at beginning of year	2,697,773	-
Additions	22,761	-
Disposals	-	-
Depreciation	(75,985)	-
Carrying amount at end of year	2,644,549	-
Plant and equipment		
Carrying amount at beginning of year	2,727,281	-
Additions	1,038,305	-
Disposals	(176,520)	-
Accumulated depreciation on disposals	105,085	-
Depreciation	(801,399)	-
Carrying amount at end of year	2,892,752	-
Office equipment and fixtures		
Carrying amount at beginning of year	25,507	10,039
Additions	8,064	8,064
Disposals	(774)	-
Depreciation	(8,080)	(4,161)
Carrying amount at end of year	24,717	13,942

	Consolidated	The Company
	2001 $	2001 $

11 Property, plant and equipment (cont'd)

Motor vehicles		
Carrying amount at beginning of year	52,756	11,710
Additions	47,946	47,946
Disposals	(85,212)	(68,633)
Accumulated depreciation on disposals	74,114	59,483
Transfers to leased vehicles	(34,290)	-
Accumulated depreciation on transfers	20,384	-
Depreciation	(13,645)	(6,112)
Carrying amount at end of year	62,053	44,394

Leased vehicles and machinery		
Carrying amount at beginning of year	52,886	36,644
Additions	-	-
Disposals	-	-
Amortisation	(26,925)	(18,150)
Transfers from motor vehicles	34,290	-
Accumulated depreciation on transfers	(20,384)	-
Carrying amount at end of year	39,867	18,494

Current valuations

An independent valuation was carried out on 28 June 2000 by Mr JR Harrington AAPI Certified Practising Valuer on the property located at Tomago, NSW. The valuation was made on “market value” basis. The directors are of the opinion that this basis provides a reasonable estimate of recoverable amount. The property was valued at $1,100,000, $106,956 above its net book value.

An independent valuation was carried out on 30 June 1999 by Mr WG Bramall, FAPI, AREI on the property located at Unanderra, NSW. The valuation was made on “specialised assets” basis. Specialised assets are those not normally traded in any market except as part of a total enterprise by reason of this specific design, size, location or other factors. The assessment of specialised owner-occupied assets controlled by the consolidated entity is made on the assumption that the consolidated entity will continue in operation or existence for the foreseeable future. The directors are of the opinion that this basis provides a reasonable estimate of recoverable amount. The property was valued at $3,770,000, $323,915 above its net book value.

	Note	Consolidated 2001 $	2000 $	The Company 2001 $	2000 $
12 Exploration, evaluation and development expenditure					
Costs carried forward in respect of area of interest:					
Purchase consideration	(a)	240,000	-	-	-
Exploration and evaluation expenditure capitalised		52,199	-	21,235	-
		292,199	-	21,235	-

(a) Consideration to Chemmet Pty Ltd, a director related entity, for the acquisition of the Stanton Prospect tenement EL8413 located in the Northern Territory granted under the Mining Act 1980 (NT) in accordance with a resolution of members at the Extraordinary General Meeting on 29 September 2000. Consideration for 100% interest in the tenement consisted of:

- 6,000,000 ordinary shares restricted to 8 June 2002, fully paid to 4.0 cents per share; and
- 6,000,000 options restricted to 8 June 2002, expiring on 28 August 2003, with an exercise price of 15.0 cents per option.

13 Intangibles

	Consolidated 2001 $	2000 $	The Company 2001 $	2000 $
Hydroproc process - at cost	2,217,323	2,217,323	-	-
Less: Accumulated amortisation	(820,001)	(576,108)	-	-
	1,397,322	1,641,215	-	-

The Hydroproc process is the technology applied by the consolidated entity in its operations.

14 Payables

Current	Consolidated 2001 $	2000 $	The Company 2001 $	2000 $
Trade creditors	715,494	688,510	22,763	67,248
Other creditors and accruals	584,288	187,899	66,101	92,026
Deferred income	268,865	221,839	-	-
	1,568,647	1,098,248	88,864	159,274

		Note	Consolidated 2001 $	Consolidated 2000 $	The Company 2001 $	The Company 2000 $
15	**Interest bearing liabilities**					
	Current					
	Lease liabilities	21	26,272	31,283	26,272	17,757
	Non-current					
	Lease liabilities	21	7,715	26,320	7,715	26,320
16	**Provisions**					
	Current					
	Employee entitlements	23	248,829	206,285	154,317	126,970
	Disposal of residues	24(a)	1,618,375	1,658,497	-	-
			1,867,204	1,864,782	154,317	126,970
	Non-current					
	Employee entitlements	23	83,600	65,202	40,430	30,727
	Site clean up	24(a)	560,000	560,000	-	-
			643,600	625,202	40,430	30,727
17	**Contributed equity**					
	Issued and paid-up share capital					
	183,015,218 (2000: 149,015,218) ordinary shares, fully paid	(a)	58,988,603	57,599,703	58,988,603	57,599,703
	6,000,000 (2000: Nil) ordinary shares restricted, fully paid	12(a)	240,000	-	240,000	-
			59,228,603	57,599,703	59,228,603	57,599,703
(a)	Ordinary shares					
	Balance at the beginning of year		57,599,703	56,805,711	57,599,703	56,805,711
	Shares issued					
	■ 34,000,000 (2000: 19,436,767) shares issued for cash		1,462,000	835,781	1,462,000	835,781
	■ transaction costs arising from issue for cash		(73,100)	(41,789)	(73,100)	(41,789)
	Balance at end of year		58,988,603	57,599,703	58,988,603	57,599,703

17 Contributed equity (cont'd)

Ordinary shares

The voting rights attaching to the ordinary shares are set out in Rule 11.15 of the Company's Constitution.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

Ordinary shares restricted

Ordinary shares restricted rank equally with all other fully paid shares.

Options restricted

On allotment the shares are fully paid up to the exercise price and will rank equally with all other fully paid shares. Refer to Note 12(a).

18 Reserves

	Consolidated		The Company	
	2001 $	**2000 $**	**2001 $**	**2000 $**
General reserve	150,000	150,000	150,000	150,000
Asset revaluation reserve	355,688	355,688	-	-
Total reserves	505,688	505,688	150,000	150,000

Nature and purpose of reserves

Asset revaluation

The asset revaluation reserve includes the increment arising from the revaluation of freehold land and buildings in the financial year ended 30 June 1996. The asset revaluation reserve is not available for future asset write-downs as a result of using the deemed cost election for land and buildings when adopting the revised AASB 1041.

General

The amount standing to the credit of the general reserve resulted from prior period allocations of retained profits for non-specific purposes.

	Consolidated		The Company	
	2001 $	2000 $	2001 $	2000 $

19 Accumulated losses

Balance at beginning of year	(49,542,848)	(47,248,009)	(48,920,714)	(47,488,446)
Net loss attributable to members of the parent entity	(1,658,547)	(2,294,839)	(1,981,327)	(1,432,268)
Balance at end of year	(51,201,395)	(49,542,848)	(50,902,041)	(48,920,714)

20 Particulars in relation to controlled entities

Name	% Interest held 2001	% Interest held 2000
HydroMet Corporation Limited		
Controlled entities		
■ HydroMet Operations (Southern) Limited	100	100
■ HydroMet Technologies Pty Limited	100	100
■ HydroMet Operations (NT) Pty Limited	100	100
■ HydroMet Operations (Tasmania) Pty Limited	100	100
■ Mineral Estates Pty Limited	100	100
Subsidiaries of which are:		
- MinMet Operations Pty Limited	100	100
- Kia Pacific Gold Pty Limited	100	100
■ HydroMet Operations Limited	100	100
Subsidiary of which is:		
- Enviromet Operations Pty Limited	100	100
■ MinMet Unit Trust	100	100

Mineral Estates Pty Limited owns 51% of the units of the MinMet Unit Trust. The balance of 49% is owned by HydroMet Operations Limited. MinMet Unit Trust is the beneficial owner of the consolidated entity's operating site in Tomago, NSW.

	Note	Consolidated 2001 $	Consolidated 2000 $	The Company 2001 $	The Company 2000 $

21 Commitments

Operating lease expense commitments

	Note	Consolidated 2001 $	Consolidated 2000 $	The Company 2001 $	The Company 2000 $
Future operating lease commitments not provided for in the financial statements and payable:					
■ within one year		120,000	120,000	-	-

The consolidated entity leases property under an operating lease expiring annually. The lease provides the consolidated entity with a right of renewal at which time all terms are renegotiated.

Finance lease payment commitments

	Note	Consolidated 2001 $	Consolidated 2000 $	The Company 2001 $	The Company 2000 $
Finance lease commitments are payable:					
■ within one year		28,310	34,706	28,310	21,002
■ one year or later but not later than five years		7,864	27,824	7,864	27,824
		36,174	62,530	36,174	48,826
Less: Future lease finance charges		(2,187)	(4,927)	(2,187)	(4,749)
		33,987	57,603	33,987	44,077
Lease liabilities provided for in the financial statements:					
■ Current	15	26,272	31,283	26,272	17,757
■ Non-current	15	7,715	26,320	7,715	26,320
Total lease liability		33,987	57,603	33,987	44,077

22 Investment in associated companies

Interest is held in the following associated company:

Name	Principal activities	Balance date	Ownership interest		Investment carrying amount at valuation	
			2001 %	2000 %	2001 $	2000 $
HydroMet (India) Limited	Chemical manufacturer	31 March	23	23	-	-

The equity method has not been applied in respect of the consolidated entity's interest in HydroMet (India) Limited. The company incurred losses in previous years and the carrying amount of this investment has been written down to zero.

The aggregate amount receivable from HydroMet (India) Limited by the consolidated entity at balance date was $194,510 (2000: $194,510). A doubtful debt provision on the loan of $194,510 has been made. No interest (2000: Nil) has been brought to account in relation to this loan during the year.

	Consolidated		The Company	
	2001 $	2000 $	2001 $	2000 $
23 Employee entitlements				
Aggregate liability for employee entitlements, including on-costs				
■ Current	248,829	206,285	154,317	126,970
■ Non-current	83,600	65,202	40,430	30,727
	332,429	271,487	194,747	157,697
The present values of employee entitlements not expected to be settled within twelve months of balance date have been calculated using the following weighted averages:				
Assumed rate of increase in wage and salary rates	3.5%	3.5%	3.5%	3.5%
Discount rate	5.4%	6.3%	5.4%	6.3%
Settlement term (years)	10	10	10	10
Number of employees at year end	35	34	7	9

24 Contingent liabilities

(a) Environmental contingent liabilities

Hazardous by-products are produced during the manufacturing processes carried on by HydroMet Operations (Southern) Limited, MinMet Operations Pty Limited and HydroMet Operations Limited. The controlled entities have established strict procedures to ensure that all such hazardous by-products are disposed of safely.

Provisions have been made in the accounts for the estimated costs of disposal of these by-products on hand at 30 June 2001. Refer Note 16 for provision details. These provisions are sufficient to meet the disposal requirements of current environmental legislation. However, these operations are subject to rapidly changing environmental legislation in various jurisdictions and future obligations to meet changing environmental legislation could involve the consolidated entity in costly work. The directors are not aware of any impending changes to the requirements or of any current breaches of legislation which are material in nature.

(b) Deed of cross guarantee

Refer Note 35.

25 Financing arrangements

Apart from the finance leases disclosed in Note 21, the consolidated entity has no financing arrangement with any parties.

26 Directors' remuneration

	The Company 2001 No	The Company 2000 No
The number of directors of the Company whose income from the Company or any related party falls within the following bands:		
$ 20,000 - $ 29,999	2	2
$ 40,000 - $ 49,999	1	-
$130,000 - $139,999	-	1
$150,000 - $159,999	-	1
$160,000 - $169,999	2	-
$180,000 - $189,999	-	1

	Consolidated 2001 $	Consolidated 2000 $	The Company 2001 $	The Company 2000 $
Total income paid or payable, or otherwise made available, to all directors of the Company and controlled entities from the Company or any related party	428,300	523,949	428,300	523,949

Directors' income includes amounts paid by the Company during the year to indemnify directors, and an allocation of insurance premiums paid by the Company or related parties in respect of directors' and officers' liabilities and legal expenses insurance contracts, in accordance with common commercial practice.

	Consolidated		The Company	
	2001 No	2000 No	2001 No	2000 No

27 Executives' remuneration

The number of executive officers of the Company and of controlled entities, whose remuneration from the Company or related parties, and from entities in the consolidated entity, falls within the following bands:

	Consolidated 2001 No	Consolidated 2000 No	The Company 2001 No	The Company 2000 No
$130,000 - $139,999	-	1	-	1
$150,000 - $159,999	-	1	-	1
$160,000 - $169,999	2	-	2	-
$180,000 - $189,999	-	1	-	1

	2001 $	2000 $	2001 $	2000 $
Total income received, or due and receivable, from the Company, entities in the consolidated entity or related parties by executive officers of the Company and of controlled entities whose income is $100,000 or more	323,910	471,234	323,910	471,234

Executive officers are those officers involved in the strategic direction, general management or control of business at a company or operating division level.

Executives' remuneration includes amounts paid by the Company during the year to indemnify executives, and an allocation of insurance premiums paid by the Company or related parties in respect of directors' and officers' liabilities and legal expenses insurance contracts, in accordance with common commercial practice.

	Consolidated		The Company	
	2001 $	2000 $	2001 $	2000 $

28 Auditors' remuneration

	Consolidated 2001 $	Consolidated 2000 $	The Company 2001 $	The Company 2000 $
Audit services				
■ Auditors of the company - KPMG	35,500	35,500	5,000	5,000
Other services				
■ Auditors of the company – KPMG	14,100	11,750	5,220	6,300
	49,600	47,250	10,220	11,300

29 Segment information

The economic entity operates predominantly in Australia, treating industrial residues using hydrometallurgical processing technology.

30 Events subsequent to balance date

The Company renewed its manganese mud filtration service agreement with Pasminco Hobart Smelter in August 2001. The contract is for twelve months to 31 July 2002 and is valued at $469,596. On 19 September 2001 Pasminco announced the appointment of an Administrator to manage the affairs of the company. At the date of this report we have been advised that operations will be continuing at the Hobart Smelter and are continuing to provide the filtration service.

31 Related party transactions

(a) Directors

The names of each person holding the position of director of Hydromet Corporation Limited during the financial year are Messrs BW O'Neill, SH Kwan, GW Wrightson, PS Tang and Dr LD Jayaweera.

Details of directors' remuneration are set out in Note 26.

Apart from the details disclosed in this note, no director has entered into a contract with the Company or the consolidated entity since the end of the previous financial year and there were no contracts involving directors' interest existing at year end.

Directors' holdings of shares and share options

The interests of directors of the reporting entity and their director-related entities in shares and share options of entities within the consolidated entity at year end are set out below:

	Note	**2001 Number held**	**2000 Number held**
HydroMet Corporation Limited			
Ordinary shares		23,779,250	24,329,250
Ordinary shares restricted	12(a)	6,000,000	-
Options restricted	12(a)	6,000,000	-

Directors' transactions in shares and share options

During the year, directors and their director-related entities acquired 1,200,000 ordinary shares and disposed of 1,750,000 ordinary shares.

Directors' transactions with the Company or its controlled entities

Refer to Note 12(a).

31 Related party transactions (cont'd)

(b) Wholly-owned group

Details of interests in wholly-owned controlled entities are set out at Note 20. Details of dealings with these entities are set out below:

Loans

Loans between entities in the wholly-owned group are interest free and repayable on demand. The aggregate amounts receivable from/payable to wholly-owned controlled entities by the Company at balance date are:

		The Company	
	Note	**2001 $**	**2000 $**
Non-current			
Loans receivable	8	8,351,494	8,563,113
Loans payable		2,893,599	2,903,124
Loans receivable			
Balance at the beginning of the year		8,563,113	9,445,689
Decrease in loans to controlled entities		(211,619)	(882,576)
Balance at the end of the year		8,351,494	8,563,113
Loans payable			
Balance at the beginning of the year		2,903,124	2,903,124
Decrease in loans from controlled entities		(9,525)	-
Balance at the end of the year		2,893,599	2,903,124

(c) Non-director related parties

The classes of non-director related parties are:

- wholly owned controlled entities (refer Note 31(b));
- associated companies (refer Note 9); and
- directors of related parties and their director related entities (refer Note 31(a)).

Transactions

All transactions with non-director related parties are on normal terms and conditions.

32 Additional financial instruments disclosure

(a) Interest rate risk

The consolidated entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities are as follows:

	Note	Weighted average interest rate	Floating interest rate	Fixed interest maturing in:			Non-interest bearing	Total
				1 year or less	1 to 5 years	more than 5 years		
			$	$	$	$	$	$
2001								
Financial assets								
Cash	33(a)	4.8%	1,447,905	-	-	-	717,712	2,165,617
Receivables	8	-	-	-	-	-	1,115,228	1,115,228
			1,447,905	-	-	-	1,832,940	3,280,845
Financial liabilities								
Accounts payable	14	-	-	-	-	-	1,568,647	1,568,647
Lease liabilities	15,21	9.2%	-	26,272	7,715	-	-	33,987
Employee entitlements	16,23	5.4%	-	-	13,328	70,272	248,829	332,429
			-	26,272	21,043	70,272	1,817,476	1,935,063
2000								
Financial assets								
Cash	33(a)	5.1%	1,590,000	-	-	-	327,018	1,917,018
Receivables	8	-	-	-	-	-	1,088,956	1,088,956
			1,590,000	-	-	-	1,415,974	3,005,974
Financial liabilities								
Accounts payable	14	-	-	-	-	-	1,098,248	1,098,248
Lease liabilities	15,21	8.8%	-	31,283	26,320	-	-	57,603
Employee entitlements	16,23	6.3%	-	-	11,457	53,745	206,285	271,487
			-	31,283	37,777	53,745	1,304,533	1,427,338

32 Additional financial instruments disclosure (cont'd)

(b) Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. The credit risk of financial assets, excluding investments, of the consolidated entity which have been recognised on the statement of financial position, is the carrying amount, net of any provision for doubtful debts.

The consolidated entity was materially exposed to an individual customer, Rio Tinto Technical Services at balance date. The exposure amounted to 78% of trade debtors.

(c) Net fair values of financial assets and liabilities

The net fair values of financial assets and liabilities approximate their carrying amounts. No financial assets and financial liabilities are readily traded on organised markets in standardised form.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the statement of financial position and in the notes to the financial statements.

33 Notes to the statements of cash flows

(a) Reconciliation of cash

For the purposes of the statements of cash flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the statements of cash flows is reconciled to the statements of financial position as follows:

	Consolidated		**The Company**	
	2001 $	**2000 $**	**2001 $**	**2000 $**
Cash	717,712	327,018	82,997	158,499
Short term deposits	1,447,905	1,590,000	1,135,001	550,000
Total cash held	2,165,617	1,917,018	1,217,998	708,449

33 Notes to the statements of cash flows (cont'd)

(b) Reconciliation of operating profit after income tax to net cash provided by operating activities

	Consolidated 2001 $	Consolidated 2000 $	The Company 2001 $	The Company 2000 $
Loss from ordinary activities after income tax	(1,658,546)	(2,294,839)	(1,981,327)	(1,432,268)
Add/(less) non-cash items:				
■ Amortisation	262,043	255,580	18,150	18,150
■ Depreciation	915,368	864,041	10,274	17,136
■ Diminution in value of investment	(289,075)	-	767,840	234,483
■ Provision for loan due from controlled entities	-	-	-	243,361
Add/(less) items classified as investing/financing activities:				
■ Profit on sale of investment	(260,371)	-	-	-
■ Profit on sale of property, plant and equipment	(26,078)	(13,856)	(8,123)	-
■ Lease charges	4,872	6,385	4,025	5,008
Net cash used in operating activities before changes in assets and liabilities	(1,051,787)	(1,182,689)	(1,189,161)	(914,130)
Changes in assets and liabilities adjusted for effects of purchase and disposal of controlled entities during the financial year				
■ (Increase)/decrease in inventories	(7,045)	77,203	-	-
■ (Increase)/decrease in receivables	(26,272)	(205,268)	(6,964)	18,889
■ Increase/(decrease) in payables	470,401	(108,957)	(70,410)	(107,120)
■ Increase/(decrease) in provisions	20,820	380,571	37,050	47,482
Net cash used in operating activities	(593,883)	(1,039,140)	(1,229,485)	(954,879)

34 Economic dependency

The Company and consolidated entity earns the majority of its revenue through the application of its Hydroproc technologies in discrete projects performed under contract. A prerequisite to the majority of these applications is approval from the relevant State Governments' Environmental Protection Agency (EPA). Due to the nature of treating industrial residues the Company must obtain EPA approval for some specific processes utilised. Without appropriate approval these projects would be significantly restricted. Such approvals are only granted after the EPA carries out rigorous examination of the submission.

To date Hydromet has been successful in obtaining six specific approvals for treatment technologies developed by the Company.

In the 2000/2001 financial year waste treatment fees comprised 81% of total operating revenues earned with recycled product sales comprising the balance.

The Company earned these treatment fees from three major clients:

- Rio Tinto 51%;
- Pasminco 8%;
- BHP Port Kembla 22%; and
- Other recycled product sales 19%.

35 Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998 the wholly owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The subsidiaries subject to the Deed are:

- HydroMet Operations Limited;
- HydroMet Operations (Southern) Limited;
- HydroMet Operations (Tasmania) Pty Limited;
- HydroMet Operation (NT) Pty Limited; and
- Enviromet Operations Pty Limited.

A consolidated statement of financial performance and consolidated statement of financial position, comprising the Company and subsidiaries which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2001 is set out on the following page.

	Consolidated	
	2001	**2000**
	$	**$**
Statement of financial performance		
Loss from ordinary activities before income tax	(2,125,529)	(2,143,402)
Income tax expense relating to ordinary activities	-	-
Loss from ordinary activities after related income tax	(2,125,529)	(2,143,402)
Accumulated loss at beginning of the financial year	(49,391,206)	(47,247,804)
Dividends provided for or paid	-	-
Accumulated loss at the end of the financial year	(51,516,735)	(49,391,206)
Statement of financial position		
Cash	2,129,999	1,838,426
Receivables	1,001,309	793,006
Inventories	132,731	88,494
Total current assets	3,264,039	2,719,926
Receivables	1,576,918	1,340,204
Investments	1,662,277	2,745,712
Property, plant and equipment	5,648,705	5,521,529
Exploration, evaluation and development expenditure	21,235	-
Intangibles	1,397,322	1,641,215
Total non-current assets	10,306,457	11,248,660
Total assets	13,570,496	13,968,586
Payables	1,147,981	797,835
Interest bearing liabilities	26,272	31,283
Provisions	1,483,296	1,439,840
Total current liabilities	2,657,549	2,268,958
Interest bearing liabilities	7,715	26,320
Provisions	74,079	56,000
Other liabilities	2,613,598	2,903,124
Total non-current liabilities	2,695,392	2,985,444
Total liabilities	5,352,941	5,254,402
Net assets	8,217,555	8,714,184
Contributed equity	59,228,603	57,599,703
Reserves	505,687	505,687
Accumulated losses	(51,516,735)	(49,391,206)
Total equity	8,217,555	8,714,184

Directors' declaration

- In the opinion of the directors of HydroMet Corporation Limited:
  - the financial statements and notes, set out on page 15 to 50, are in accordance with the Corporations Act 2001, including:
    - giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2001 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
    - complying with Accounting Standards and the Corporations Regulations 2001; and
    - there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- There are reasonable grounds to believe that the Company and the subsidiaries identified in Note 35 will, be able to meet any obligations or liabilities to which they are or may become subject by virtue of the Deed of Cross Guarantee between the Company and those subsidiaries pursuant to ASIC Class Order 98/1418.

Dated at Wollongong this 27 day of September 2001.

Signed in accordance with a resolution of the directors:

GW Wrightson
Managing Director

KPMG

Independent audit report
to the members of Hydromet Corporation Limited

Scope

We have audited the financial report of HydroMet Corporation Limited for the financial year ended 30 June 2001, consisting of the statements of financial performance, statements of financial position, statements of cash flows, accompanying notes, and the directors' declaration set out on pages 15 to 51. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the end of the year or from time to time during the financial year. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements and statutory requirements in Australia so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit opinion

In our opinion, the financial report of HydroMet Corporation Limited is in accordance with:

- the Corporations Act 2001, including:
  - giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2001 and of their performance for the year ended on that date; and
  - complying with Accounting Standards and the Corporations Regulations 2001; and
- other mandatory professional reporting requirements.

KPMG

KPMG

Chris Hollis
Partner

Wollongong
27 September 2001

ASX additional information

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

Shareholdings (as at 18 September 2001)

Substantial shareholders

The number of shares held by the substantial shareholders are set out below:

Shareholder	Ordinary
Westpac Custodian Nominees	19,085,283

A director of the company is a substantial shareholder if ordinary shares and ordinary shares restricted held by a director related entity are included in this assessment.

Voting rights

Ordinary shares and ordinary shares restricted

As at 18 September 2001 there were 2,607 holders of the ordinary shares of the Company. Refer to Note 17.

Options restricted

Refer to Note 17.

Distribution of equity security holders

Category	Ordinary shares	Ordinary shares restricted	Options restricted
1 - 1,000	370	-	-
1,001 - 5,000	571	-	-
5,001 - 10,000	368	-	-
10,001 - 100,000	1,052	-	-
100,001 and over	246	1	1
	2,607	1	1

The number of shareholders holding less than a marketable parcel is 1,476.

On-market buy-back

There is no current on-market buy-back.

Twenty largest shareholders (as at 18 September 2001)

Shareholder		Number of ordinary shares held	Percentage of capital held
1	Westpac Custodian Nominees	19,085,283	10.43
2	Zenith Chemical Corporation	7,500,000	4.10
3	Wing Mei Lee	5,310,859	2.90
4	Twynam Commodities Pty Limited	5,000,000	2.73
5	Dr Lakshman Jayaweera	4,138,250	2.26
6	Lost Ark Nominees Pty Limited	3,723,782	2.03
7	Wightholme Nominees Pty Ltd	3,000,000	1.64
8	Ms Anshu Jayaweera	2,650,000	1.45
9	Twynam Commodities Pty Ltd	2,500,000	1.37
10	Elroa Nominees Pty Ltd	2,200,000	1.20
11	Linkenbrolt Pty Limited	2,170,000	1.19
12	Mr Richard Austin	2,000,000	1.09
13	Igera Pty Limited	1,950,000	1.07
14	Mr Paul Michael Trainor	1,600,000	0.87
15	Leet Investments Pty Limited	1,600,000	0.87
16	ANZ Nominees Limited	1,545,030	0.84
17	Intersuisse (Nominees) Pty Limited	1,445,879	0.79
18	Leet Investments Pty Ltd	1,332,000	0.73
19	Mr Friedrich & Mrs Erika Rahn	1,150,000	0.63
20	Corcarr Nominees Pty Ltd	1,129,413	0.62
		71,030,496	38.81

Unquoted and restricted equity securities

Ordinary shares restricted

Refer to Note 12(a) and Note 31(a).

Name of holder	Number of ordinary shares restricted	Percentage of total on issue
Chemmet Pty Ltd	6,000,000	100

Restricted options

Refer to Note 12(a) and Note 31(a).

Name of holder	Number of options restricted	Percentage of total on issue
Chemmet Pty Ltd	6,000,000	100