HydroMet Corporation Limited
ABN 71 002 802 646
and its Controlled Entities

Half-Year Financial Report

31 December 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
Facsimile: 02 4271 6151
www.hydromet.com.au

HydroMet Operations (Tasmania) Pty Limited
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.

HydroMet Corporation Limited and its Controlled Entities
For the half-year ended 31 December 2001

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HydroMet Corporation Limited and its Controlled Entities

Directors' report

The directors present their report together with the consolidated financial report for the half-year ended 31 December 2001 and the review report thereon.

Directors

The directors of the company during or since the end of the half-year are:

Name	Period of directorship
Dr Lakshman D Jayaweera MSc, PhD Chairman Executive Director	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	Director since 1998 - appointed Managing Director in September 2000.
Mr Stephen H Kwan MPhil, ATI, MBIM Non-Executive Director	Director since 1991.
Mr Pipvide S Tang MBA, CPA, FCCA Non-Executive Director	Director from 1991 to 1996 and since 1997 – Executive Director until August 2000.
Mr Barry W O'Neill D.App.Chem, A.SwTC, FAICD Independent Non-Executive Director	Director since 1998 – Chairman from 1999 to January 2001. Retired October 2001.
Mr Timothy R Allen Independent Non-Executive Director	Appointed Director in October 2001.

Review of operations

Consolidated results

The Directors are very pleased to report a consolidated net profit of $532,000 (31 December 2000: Losses $616,000) for the half-year ended 31 December 2001. It is particularly gratifying to note that the profit is the result of operational performance and principally from two major projects, namely the Lead Immobilisation and Falconbridge projects. The Directors expect this profitability to continue through the coming half year.

The profit has been made possible by the positive contributions from the very successful Lead Immobilisation and Precious Metals projects in progress at Unanderra and Newcastle. Both projects commenced scaled up processing in July – August and are currently operating at a steady state.

Hydromet's signing of a five year treatment contract with Onesteel in Sydney is the culmination of a number of years dedicated technical, operational and marketing work to secure a sustainable and environmentally beneficial project. This is a major milestone for the Company and we believe that the project represents the first of a number of significant projects, which may be introduced to the group over the next one to two years.

Hydromet will remain focused on bringing a number of promising projects to fruition and is confident of additional opportunities emerging as we continue to gain industry and regulatory support in our objective to become the Company capable of solving difficult hazardous waste recycling and disposal problems faced by heavy industry both in Australia and overseas. A number of projects are under evaluation and we will continue with their development over the coming months.

HydroMet Operations (Southern) Limited – Unanderra NSW

Southern concentrated on bringing the Lead Immobilisation Project up to capacity, achieving this in September. The process is immobilising in excess of 1,000 tonnes of lead residue per month under its contract with Rio Tinto to treat 16,000 tonnes of residue. At the date of this report we anticipate to complete this task by July-August 2002. The Hydromet process meets rigorous regulatory criteria and is a proven solution to the disposal dilemma previously surrounding this waste.

The valuable Onesteel project will be implemented at Unanderra before June ready to commence treatment of the EAF dust in July 2002. We will utilise Hydromet's proprietary technology to recover zinc from the dust to produce value added Zinc Sulphate, an agricultural chemical widely used in Australia and New Zealand. We expect to be offering product for sale commencing June-July once plant upgrade and modifications are completed.

We are considering another complimentary project for the Unanderra plant, which will provide a waste acid stream suited to recycle via the Onesteel project. Other minor process additions are also under consideration for the site.

MinMet Operations Pty Ltd – Tomago NSW

The Tomago facility near Newcastle has as its major project, the treatment of Precious Metal residue from Falconbridge Norway to remove Selenium from the residue to produce a high grade Selenium product for sale and to return the upgraded concentrate to Falconbridge for refining. Falconbridge pay Hydromet a treatment fee for the service and we receive revenue from the sales of Selenium. We are treating the 600+ tonne stockpile at the rate of 30 tonnes per month and expect the project to run until mid 2003 and beyond.

Minmet will play a major role in the Onesteel project providing spray drying capability to produce Zinc Sulphate (Powder) for sale to animal feed and other agricultural applications. This will optimise plant utilisation and alleviate the need for more costly installation of another dryer at Unanderra.

Other projects are under consideration for Minmet with the objective of optimising asset utilisation, infrastructure and activities for the site.

HydroMet Operations (Tasmania) Pty Limited – Hobart TAS

The Hobart site continues to filter and immobilize manganese mud generated at the Pasminco Zinc Smelter. Hydromet provides this service on a 12 month contract basis. The current contract expires in July 2002.

As you will be aware, Pasminco is under Administration however we understand that there will be no change to activities at the Hobart Smelter at this stage.

We expect to tender for renewal of the contract in June 2002.

There may be other smaller specific waste treatment projects carried out on behalf of Pasminco at our facility over the next 12 months. These projects will be subject to Pasminco priorities and cost.

Stanton project

The Stanton Prospect (Cobalt bearing lease) is currently awaiting approval of a lease upgrade application made to the Northern Territory Mines Department to change the lease form an exploration to a mine lease. We await results of the application due by April 2002.

In the meantime, we are considering further infill drilling at the site to confirm previous findings and further define ore body and grades available. It is only possible to carry out this work in the dry season, June – November.

The Cobalt concentrate we intend to extract from the lease to produce Cobalt chemicals is at a record low market price, along with other metals. We are prepared to await improved metal pricing in our evaluation of the Stanton project.

Conclusions

The Directors are convinced that Hydromet has clearly demonstrated the valuable contribution and benefits of its technologies and processing operations in delivering solutions to difficult waste management problems. We are also confident that with continued concentration on the introduction of new projects to the group our business will develop in accordance with our strategy as leaders in the hazardous waste management industry.

Rounding off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Date at Wollongong this 12th day of March 2002.

Signed in accordance with a resolution of the directors:

GW Wrightson
Managing Director

HydroMet Corporation Limited and its Controlled Entities

Statement of financial performance
For the half-year ended 31 December 2001

	Note	Consolidated 2001 $'000	2000 $'000
Revenue from sale of goods		458	733
Revenue from rendering of services		3,854	1,384
Other revenues from ordinary activities		1,049	824
Total revenue		5,361	2,941
Raw materials and consumables used		(893)	(451)
Direct production costs		(1,149)	(480)
Employee expenses		(1,217)	(714)
Depreciation and amortisation expenses		(600)	(569)
Borrowing costs		(8)	(6)
Other expenses from ordinary activities		(962)	(1,337)
Profit/(loss) from ordinary activities before related income tax expense		532	(616)
Income tax (expense)/benefit relating to ordinary activities	5	-	-
Net profit/(loss) attributable to members of the parent entity	4	532	(616)
Basic earnings/(losses) per share for HydroMet Corporation Limited (cents)		0.282	(0.379)
Diluted earnings/(losses) per share for HydroMet Corporation Limited (cents)		0.273	(0.379)

The statement of financial performance is to be read in conjunction with the notes to the half-year financial statements set out on pages 7 to 12.

HydroMet Corporation Limited and its Controlled Entities

Statement of financial position
As at 31 December 2001

	Note	Consolidated 31/12/01 $'000	Consolidated 30/06/01 $'000
Current assets			
Cash assets		2,482	2,166
Receivables		1,206	1,115
Inventories		251	217
Total current assets		3,939	3,498
Non-current assets			
Property, plant and equipment		7,462	7,459
Exploration, evaluation and development expenditure		302	292
Intangibles		1,275	1,397
Total non-current assets		9,039	9,148
Total assets		12,978	12,646
Current liabilities			
Payables		1,549	1,569
Interest-bearing liabilities		29	26
Provisions		1,640	1,867
Total current liabilities		3,218	3,462
Non-current liabilities			
Interest-bearing liabilities		54	8
Provisions		641	643
Total non-current liabilities		695	651
Total liabilities		3,913	4,113
Net assets		9,065	8,533
Equity			
Contributed equity	6	59,229	59,229
Reserves		505	505
Accumulated losses	4	(50,669)	(51,201)
Total equity		9,065	8,533

The statement of financial position is to be read in conjunction with the notes to the half-year financial statements set out on pages 7 to 12.

HydroMet Corporation Limited and its Controlled Entities

Statement of cash flows
For the half-year ended 31 December 2001

	Note	Consolidated 2001 $'000	Consolidated 2000 $'000
Cash flows from operating activities			
Cash receipts in the course of operations		5,308	2,600
Cash payments in the course of operations		(4,572)	(3,297)
Interest received		32	56
Borrowing costs paid		(5)	(3)
Net cash provided by/(used in) operating activities		763	(644)
Cash flows from investing activities			
Proceeds from loans to controlled entities		-	-
Proceeds from sale of non-current assets		17	85
Proceeds from sale of investments		-	245
Payments for exploration, evaluation and development expenditure		(10)	-
Payments for property, plant and equipment		(499)	(515)
Net cash used in investing activities		(492)	(185)
Cash flows from financing activities			
Lease payments		(31)	(13)
Proceeds from borrowings		76	-
Proceeds from share placement		-	1,389
Net cash provided by financing activities		45	1,376
Net increase in cash held		316	547
Cash at the beginning of the financial period		2,166	1,917
Cash at the end of the financial period		2,482	2,464

The statement of cash flows is to be read in conjunction with the notes to the half-year financial statements set out on pages 7 to 12.

HydroMet Corporation Limited and its Controlled Entities

Notes to the financial statements
For the half-year ended 31 December 2001

1 Statement of significant accounting policies

(a) Basis of preparation of half-year financial report

The half-year consolidated financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standard AASB 1029 *Interim Financial Reporting*, the recognition and measurement requirements of applicable AASB standards, other authoritative pronouncements of the Australian Accounting Standards Board and Urgent Issues Group consensus views. This half year financial report is to be read in conjunction with the 30 June 2001 Annual Financial Report and any public announcements by HydroMet Corporation Limited and its Controlled Entities during the half-year in accordance with continuous disclosure obligations arising from 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 economic entity and, except where there is a change in accounting policy as disclosed in Note 2, are consistent with those applied in the 30 June 2001 Annual Financial Report.

The half-year report does not include full note disclosures of the type normally included in an annual financial report.

(b) Reclassification of financial information

Some line items and sub-totals reported in the previous reporting periods have been reclassified and repositioned in the financial statements as a result of the first time application on 1 July 2001 of the revised standard AASB 1029 *Interim Financial Reporting* and the first time application at 30 June 2001 of AASB 1018 *Statement of Financial Performance* and 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 4.

2 Changes in accounting policy

Earnings per share

The consolidated entity has applied AASB 1027 *Earnings Per Share* (issued June 2001) for the first time from 1 July 2001.

Basic and diluted earnings per share ("EPS") for the comparative period ended 31 December 2000 has been adjusted so that the basis of calculation used is consistent with that of the current period.

Basic earnings per share

Basic EPS earnings are now calculated as net profit or loss, rather than excluding extraordinary items.

Diluted earnings per share

Diluted EPS earnings are now calculated by only adjusting the basic EPS earnings for the after tax effect of financing costs and the effect of conversion to ordinary shares associated with dilutive potential ordinary shares, rather than including the notional earnings on the funds that would have been received by the entity had the potential ordinary shares been converted.

The diluted EPS weighted average number of share now includes the weighted average number of shares assumed to be issued for no consideration in relation to dilutive potential ordinary shares, rather than the total number of dilutive potential ordinary shares.

The identification of dilutive potential ordinary shares is now based on net profit or loss from continuing ordinary operations, not net profit or loss before extraordinary items and is applied on a cumulative basis, taking into account the incremental earnings and incremental number of shares for each series of potential ordinary share.

3 Individually significant items

Individually significant items included in profit/(loss) from ordinary activities before income tax expense:

	Consolidated	
	2001 $'000	**2000 $'000**
Proceeds from sale of equity investment	-	245
Write-back on provision for diminution of investments	-	289

		Consolidated	
	31/12/01 $'000	30/06/01 $'000	31/12/00 $'000

4 Accumulated losses

Balance at beginning of year	(51,201)	(49,543)	(49,543)
Net profit/(loss) attributable to members of the parent entity	532	(1,658)	(616)
Balance at end of the period	(50,669)	(51,201)	(50,159)

5 Taxation

The income tax expense of nil differs to the prima facie income tax expense because the future income tax benefit relating to tax losses and timing differences has not been recognised. The 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 and recovery of timing differences is not assured beyond any reasonable doubt.

		Consolidated	
	Note	31/12/01 $'000	30/06/01 $'000

6 Contributed equity

Issued and paid-up share capital			
Nil (30 June 2001: 183,015,218) ordinary shares, fully paid	(a)	58,989	58,989
Nil (30 June 2001: 6,000,000) ordinary shares restricted, fully paid		240	240
		59,229	59,229

(a) Ordinary shares

Balance at the beginning of year	58,989	57,600
Shares issued		
n Nil (30 June 2001: 34,000,000) shares issued for cash	-	1,462
n transaction costs arising from issue for cash	-	(73)
Balance at end of year	58,989	58,989

6 Contributed equity (cont'd)

(a) Ordinary shares (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

6,000,000 ordinary shares restricted to 8 June 2002, fully paid to 4.0 cents per share.

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

Options restricted

6,000,000 options restricted to 8 June 2002, expiring on 28 August 2003, with an exercise price of 15.0 cents per option.

On allotment the shares are fully paid up to the exercise price and will rank equally with all other fully paid shares.

7 Contingent liabilities and contingent assets

(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 31 December 2001. 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.

7 Contingent liabilities and contingent assets

(b) 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
- Envirometi Operations Pty Limited.

(c) Other

There have been no other changes in contingent liabilities or assets since 30 June 2001.

8 Segment reporting

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

9 Events subsequent to reporting date

Dust treatment contract

Hydromet signed a five year dust treatment contract with Onesteel on 24 January 2002. Hydromet will process up to 35,000 tonnes of Electric Arc Furnace dust from Onesteel's Rooty Hill (NSW) plant to recycle zinc contained in the dust and will produce Zinc Sulphate for sale into the Australian and New Zealand agricultural markets for this product. The total revenue from treatment and product sales over the five years is estimated to be $25 million. The contract contains a review option, which may extend the agreement a further five years.

Share purchase plan

On 1 February 2002, Hydromet announced its intention to offer a share purchase plan to eligible shareholders listed on the share register at close of business on 8 February 2002. The shares will be offered to eligible shareholders at 5 cents per share representing a discount on the average closing market price over the six days ended 31 January 2002. The offer is based on a minimum parcel of $500 (10,000 shares) to a maximum parcel of $3,000 (60,000 shares) per eligible shareholder. Funds raised from the offer will be utilised for capital expenditure to install additional plant and modify existing plant at Unanderra to undertake the Onesteel project.

10 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.

For the six months ended 31 December 2001 waste treatment fees comprised 72% of total operating revenues earned with recycled product sales and other revenue comprising the balance.

The Company earned these treatment fees from three major clients:

- Rio Tinto 52%;
- Falconbridge 12%;
- Pasminco 4%;
- Other Treatment Fees 4%;
- Other revenues 19%; and
- Other recycled product sales 9%.

HydroMet Corporation Limited

Directors' declaration

In the opinion of the directors of HydroMet Corporation Limited:

1 the financial statements and notes set out on pages 4 to 12, are in accordance with the Corporations Act 2001, including:

   a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2001 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and

   b) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and

2 there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

3 there are reasonable grounds to believe that the Company and the subsidiaries identified in Note 7(b) will be able to meet any obligations or liabilities to which they are or may become subject to 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 12th day of March 2002.

Signed in accordance with a resolution of the directors:

GW Wrightson
Managing Director

Independent review report to the members of HydroMet Corporation Limited

Scope

We have reviewed the financial report of HydroMet Corporation Limited for the half-year ended 31 December 2001, consisting of the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes 1 to 10 and the directors' declaration. 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 half-year or from time to time during the half-year. The company's directors are responsible for the financial report.

We have performed an independent review of the financial report in order to state whether, on the basis of procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029 "Interim Financial Reporting" 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 consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows and in order for the company to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. The review is limited primarily to inquries of company personnel and analytical procedures applied to the financial data. Our review has not involved a study and evaluation of internal accounting controls, tests of accounting records or tests of responses to inquiries by obtaining corroborative evidence from inspection, observation or confirmation. The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of HydroMet Corporation Limited is not in accordance with:

a) the Corporations Act 2001, including:

i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2001 and of its performance for the half-year ended on that date; and

ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and

b) other mandatory professional reporting requirements in Australia.

k p mg

KPMG

C Hollis

Chris Hollis
Partner

Wollongong
12 March 2002