Annual Financial Report

Hydromet Corporation Limited
and its controlled entities

ABN 71 002 802 646

30 June 2003

Offices and officers

Principal registered office
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Unanderra NSW 2526

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Company Secretary
Pip Tang

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

Location of share registry
Sydney
Computershare Investor Services Pty Limited
Level 3 60 Carrington Street
Sydney NSW 2000

Telephone: 02 8234 5000
Facsimile: 02 8216 5500
Investor enquiries: 02 8216 5700

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.

Auditor
KPMG
PO Box 866
Wollongong NSW 2500

Hydromet Corporation Limited and its controlled entities
for the year ended 30 June 2003

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Hydromet Corporation Limited and its controlled entities
for the year ended 30 June 2003

Chairman's report

The Group has incurred a loss of $4,452,966 for the year ended 30 June 2003, compared to a net profit of $1,427,552 in the previous year. The Group was only able to achieve a total operating revenue of $4,757,042 for the year compared to $11,611,024 for the previous year. As a result the Board is unable to consider any dividend payments this year.

Although the Board predicted a loss for this year, we were still hopeful that this situation could have been contained by bringing some planned new projects to commercial fruition during the year. Unfortunately we had mixed success in achieving this goal. However, the efforts made in the year will be reflected in the forthcoming years with new projects bringing sustainable income to the company. The details of these projects and a comprehensive review of the operations are contained in the Directors' report.

The losses during this transition period, can be attributed to the following:

- the Unanderra site did not generate sufficient revenue to off set the operating cost after the completion of the Rio Tinto project in July 2002. The site experienced a period of refurbishment and the commissioning of the process to treat EAF dust from OneSteel with a number of unexpected delays most of which were not of the Group's making;
- the operating revenues generated from Minmet Operations were inadequate to offset the Group's cost of operations and corporate overheads;
- projected sales revenue to be generated by selling zinc sulphate was affected by drought and cheap imports from China along with initial quality problems with Hydromets product. As a result Unanderra's income stream was limited to treatment fees received from immobilisation activities; and
- during this transition period, the company concentrated heavily on developing new projects for the future longer-term sustainability of the business.

During this period, our Unanderra operation completed refurbishment and commissioning of the EAF Dust processing facility. We are now continuously processing the EAF dust generated by OneSteel. Furthermore, we entered into a preliminary agreement with Comsteel Limited in Newcastle to process their entire off-take at a rate of 3,500 mt/year, subject to a six month review period. We expect this arrangement will be continued on a sustainable basis. Although we have experienced a poor start for our zinc sulphate sales, we expect this situation to improve in the financial year 2003/04. Along with the treatment fees received, and emerging sales of zinc sulphate the situation at Unanderra should improve. In addition, Hydromet is currently negotiating with an overseas steel mill to process their EAF dust on their site. Hydromet's track record in processing EAF dust is becoming well known and commercially proven, both locally and internationally.

Some additional projects we have been successful in concluding are as follows:

- Hydromet entered into a slag immobilisation contract with a secondary lead smelter in New Zealand.
- We successfully treated a trial parcel of Selenium precious metal bearing residue from Kennecott Copper (Utah, USA). This would be in addition to the successful ongoing processing arrangement with Falconbridge, Norway. We have also entered into a contract to treat a trial parcel of tellurium-selenium bearing material, from a leading nickel smelter in Canada. If successful we will seek an ongoing long-term contact with our client. We now are a major selenium producer in this growing market.

Chairman's report (cont'd)

- In February, Hydromet, entered into an agreement with a major oil refinery in Australia to conduct a full feasibility study for a unique recycling process developed by Hydromet to recycle and reuse spent sulphuric acid generated by the refinery. It is expected that some of the purified acid will be used in our EAF dust circuit with the remainder sold to other acid users. Hydromet expects a significant revenue stream on a long-term basis, from both treatment fees and acid sales. Depending on the commercial success of the first project at the Unanderra site it is expected that the commercialisation can be extended to other refineries in Australia and overseas as this issue is considered a major disposal problem by the oil refineries around the world. The Australian Government has already acknowledged the quality of this innovative project by awarding us an AusIndustry Research Grant.
- Our proposed Lead-Acid battery Stripping and Upgrading Facility is on target with submission of an EIS to the Wollongong Council to be completed by early September 2003. As a result it is expected that Hydromet will be in a niche situation to take significant share of the junk batteries' export market.
- Among the other projects, Hydromet is in discussion with Pasminco, Hobart to utilise our existing manganese filtration facility to process cobalt-cadmium bearing waste to produce value added product. We are in the advanced stage of negotiations to enter into a contract to immobilise their mercury contaminated waste.

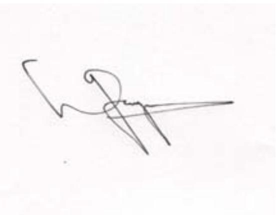
Today, Hydromet's quality work in the environmental field, particularly our immobilisation process (HydroProc Immobilisation Process) is highly regarded by the authorities and the industrial community. Hydromet's unique chemical immobilisation slurry process system is widely recognised as the most acceptable technology when compared to the encapsulation process currently in practice in Australia.

Outlook for our future and our challenge

Although we do not expect all the above mentioned projects to generate sales revenues in the financial year 2003/2004, I am very confident that significant improvements will be reflected in the second half of 2003/2004. Once the above projects have materialised I expect, as outlined in the Directors' report, that the total sales revenue of between $20-30 million can be achieved on a sustainable basis.

Conclusion

Although the financial year has been disappointing, I am confident the money invested in initiating and developing new projects as outlined will bring long-term revenue and profits in years to come. I am very grateful for the staff and the management who have made a tremendous contribution and dedication in building Hydromet's future. Finally I am also thankful for the shareholders for their support.



Dr Lakshman Jayaweera
Chairman

Dated this 9th day of September 2003

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, Conflict of interest, Business risk management, 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 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 prepare 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 members of Audit and Remuneration Committee during the year were:

- Mr SH Kwan, Non Executive Director; and
- Mr PS Tang, Independent Non Executive Director.

The Audit and Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the Managing Director and directors. Remuneration levels are competitively set to attract and retain the most qualified and experienced directors and senior executives. Further details of the directors' remuneration, superannuation and retirement payments are set out in the Directors' report and Note 27 to the financial statements.

The responsibilities of the Audit and Remuneration Committee also includes:

- nomination of new directors;
- 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;
- considering whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. The external auditor provides an annual declaration of independence; and
- reviewing the nomination and performance of the external auditor.

Corporate governance statement (cont'd)

The Audit and Remuneration Committee reviews the performance of the external auditors on an annual basis and normally meets with them during the year as follows:

- to discuss the external audit plans, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed;
- prior to announcement of results:
  - to review the half year and preliminary final report prior to lodgement with ASX, and any significant adjustments required as a result of the auditor's finding; and
  - to recommend Board approval of these documents.
- to finalise half-year and annual reporting:
  - review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made; and
  - review the draft financial report and recommend Board approval of the financial report;
- as required, to organise, review and report on any special reviews or investigations deemed necessary by the Board.

The names of the directors of the Company in office at the date of this statement are set out in the Directors' 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 is $25,000 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 two independent non-executive directors, one non-executive director and two executive directors, one of which is the Chairman. Independent directors do not play a role in the day to day management of the Group.

Corporate governance statement (cont'd)

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. The Board has developed procedures to assist directors to disclose potential conflicts of interest. Details of director related entity transactions with the Company and consolidated entity are set out in Note 31.

Business risk management

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.

Role of shareholders

The Board of Directors aims to ensure that the shareholders, on behalf of whom they act, are informed of all significant 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.

Corporate governance statement (cont'd)

Director dealings in Company shares

Directors and senior management may acquire shares in the Company, but are prohibited from dealing in Company shares or exercising options:

- except between three and 30 days after either the release of the Company's half-year and annual results to the Australian Stock Exchange ("ASX"), the annual general meeting or any major announcement; and
- whilst in possession of price sensitive information.

ASX Corporate Governance Council recommendations

For the year ended 30 June 2003, HydroMet did not meet Corporate Governance Council recommendations in the following areas:

Nomination Committee

Due to the size of the Board of the company the formation of an independent Nomination Committee was not feasible for the year ended 30 June 2003.

As stated previously, the existing members of the Board will review any nomination for vacancies.

Directors' report

The directors present their report together with the financial report of Hydromet Corporation Limited ("the Company") and of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2003 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. Member of the Audit and Remuneration Committee. Director since 1991.
Mr Pipvide S Tang, MBA, CPA Independent Non-Executive Director	Mr Tang has more than 25 years experience in accounting, financial management and corporate finance. Member of the Audit and Remuneration Committee. Chair of the Audit and Remuneration Committee from October 2001. Director from 1991 to 1996 and since 1997. Mr Tang was an Executive Director until August 2000.
Mr Timothy R Allen Independent Non-Executive Director	Mr Allen has extensive engineering and banking experience with qualifications in mining, engineering, economics and he is a member of the Securities Institute of Australia. Director since October 2001.

Directors' report (cont'd)

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 SH Kwan	17	3	4	4
Mr GW Wrightson	17	16	-	-
Dr LD Jayaweera	17	17	-	-
Mr PS Tang	17	17	4	4
Mr TR Allen	17	17	-	-

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; 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.

Directors' report (cont'd)

Review of operations

The consolidated loss from ordinary activities for the year attributable to members of the Company was $4,452,966 (2002: profit $1,427,552).

During the past financial year Hydromet experienced an extended transition period at the Unanderra site, from the Rio Tinto project, which concluded in June 2002 to installation and commissioning of the EAF dust processing and zinc sulphate production. The transition was longer than planned and was the result of construction delays, commissioning and zinc sulphate product issues and a slow zinc sulphate market due to the extended drought conditions affecting our key market across the eastern states of Australia. The zinc sulphate market has been more recently affected by heavy discounting by Chinese manufacturers seeking to secure a significant share of the Australian market. This discounting and strong Australian dollar has combined to bring product pricing down by up to 40% over the past four months.

The year was difficult in the transition phase and resulted in among other things our paying close attention to management of cash reserves and allocation of funds across the various existing and upcoming projects and business prospects.

We were successful in securing the following projects:

- the lead slag immobilisation in Wellington New Zealand;
- a precious metal upgrading trial at our Newcastle plant on behalf Kennecott Copper (Utah, USA);
- continuing feed for the Falconbridge precious metal upgrading project at Newcastle;
- a deed of agreement with a major oil refiner to conduct further research and development into a revolutionary waste acid recycling technology developed by Hydromet;
- a $311,000 Research and Development Grant from AusIndustry to complete vital pilot plant work on the acid recycling project; and
- a six month trial with Smorgon Steel Group to receive and process up to 1,500 tonnes of EAF dust from their Comsteel plant in Newcastle.

The company obtained a number of new immobilisation project approvals from NSW Environment Protection Authority including a spent oil refinery catalyst, and other minor wastes, which could not be disposed of without the approved Hydromet treatment process.

A number of new, existing and emerging projects were progressed during the year including:

- commencement of preparation of an Environmental Impact Statement for the Unanderra facility to install a used lead acid battery (ULAB) crushing and recycling plant;
- preparation of a Statement of Environmental Effects covering the installation of a full scale waste acid recycling plant. This project go ahead is subject to the outcome of the research and development pilot plant work which is underway.

Directors' report (cont'd)

Review of operations (cont'd)

- initial progress with a further source of EAF dust which will potentially involve options for other zinc based product recycling solutions;
- an arsenic waste immobilisation project; and
- a cobalt bearing waste recycling and value adding project.

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

	$ (million)	%
Treatment fees earned	3.154	66
Finished product sales	1.261	27
Other sales	0.342	7
Total revenue earned for the year	4.757	

Compared to revenue of $11.6 million in 2001/2002 this represents a decrease of $6.9 million or 60%.

Contribution to revenue from individual sites was as follows:

	$ (million)	%
Unanderra	1.697	36
Minmet	2.523	53
Tasmania	0.360	8
Corporate	0.177	3

HydroMet Operations (Southern) Limited – Unanderra, NSW

- Continued the installation of the Onesteel EAF dust processing plant which was completed in January 2003.
- First zinc sulphate product from Onesteel EAF dust produced in February 2003.
- Quality issues resulting from varying contaminants in the EAF dust addressed and continuing.
- Smelter water treatment plant immobilisation trials conducted March and April 2003. Immobilisation process approval to treat this residue was received from NSW EPA in August 2002.

Directors' report (cont'd)

Review of operations (cont'd)

- Six month (approximate 1,500 tonne) trial of Comsteel EAF dust for zinc sulphate production commenced in June 2003.
- The operation was downsized in February to minimise cost in response to the above delays.
- A Deed of Agreement was entered to with major oil refiner to carry out further intensive development work on waste acid recycling technology developed by Hydromet. Successful implementation of the project would result in up to 7,000 tonnes of waste acid being rejuvenated for ultimate use in our zinc sulphate process with surplus recovered acid offered to other end users.
- An AusIndustry grant of up to $311,000 confirmed in June 2003 to be received over the pilot period of 12 months ending June 2004.
- Continued to treat tin bearing waste from BHP's Port Kembla tinplate plant.
- Preparation of Environmental Impact Statement and Statement of Environmental Effects re the battery crushing and waste acid recycling projects commenced in April 2003.
- A significant plant electrical and high voltage receival equipment upgrade was carried out during the course of installation of the Onesteel plant and equipment. The upgrade which is ongoing is necessary to bring the entire facility up to current Australian standards.
- Conducted research and development work on a number of prospective projects expected to materialise over the next six months.

MinMet Operations Pty Ltd – Tomago, NSW

- Minmet continued to process the backlog of precious metal bearing residue (PMC) from the Falconbridge Nikkleverk Norway smelter.
- Plant modifications were made to optimise selenium recovered during the PMC upgrade process. The modification has yielded up to a 50% increase in selenium recovered. With a selling price of $11,000 per tonne. The selenium is exported to clients in China and the UK for use in a range of selenium chemicals. Minmet has the capability of producing up to 14 tonnes per month of selenium from precious meal concentrates.
- Copper/tellurium residue also from Falconbridge is now being processed at Minmet. Similar to the selenium recovery this process recovers the copper and tellurium from the PMC residue to upgrade the material for return to Falconbridge and refining.
- A trial upgrading of similar selenium bearing PMC from Kennecott Copper in the United States was conducted in February 2003. The trial was to demonstrate the technology developed for Falconbridge would also apply to the residue from Kennecott. The trial was a success with further parcels due to be received at Minmet for processing during 2003/04.The Kennecott project came by way of referral from Rio Tinto who own the Kennecott copper smelter and who were impressed with Hydromet's processing of the lead residue in 2001/02 and became aware of our PMC upgrading technology at Minmet.

Directors' report (cont'd)

Review of operations (cont'd)

HydroMet Operations Limited – Hobart, Tasmania

- The manganese mud filtration contract expired in April 2003.
- A number of other possible service activities were explored with Pasminco to capitalise on the Hydromet plant and equipment on the site and its application to other filtration and related duties for Pasminco.
- An arsenic immobilisation proposal is currently being reviewed by Pasminco, with the objective of progressively treating a stockpile over a 2 to 3 year period.
- A cobalt recovery project has been proposed which would result in an accumulated stockpile of cobalt/cadmium residue being recycled and value added.

Stanton Project – Northern Territory

- A mine exploration and mining lease were granted by the Northern Territory Government during the year.
- The leases define the area marked as the indicated resource and further area around the main reserve for further exploration in the future.
- The leases have a five year duration ending in 2007.
- Little development activity has been sought during the year due to a continuing low market price for cobalt and reduced interest from potential mine partners.
- Recent improvement in the cobalt price has occurred which will regenerate interest in the metal.

Other

The company continued to invest in research and development in the pursuit of prospective future business opportunities for the three operating sites and is seeing an increase in demand for hazardous waste treatment. The growing interest is the result of:

- increased awareness of Hydromet's activities and success with a range of difficult waste disposal problems faced by industry;
- increased pressure on industry by regulators to deal with difficult wastes to facilitate their environmentally acceptable disposal and improved process management; and
- the desire by management of hazardous waste generating organisations to deal with the wastes via recycling and or immobilisation technologies developed by Hydromet to minimise and control disposal liabilities.

Over the past 12 months we have witnessed an increased level of potential waste processing opportunities. From previous reports shareholders will be aware that the directors have sought to identify projects which will underpin the group for a minimum five to 10 year basis. We are now seeing these opportunities developing and believe we have a strong future with the potential of taking the group to a position of annual revenues of up to $20 to 30 million over the next two years based on our current list of active projects under evaluation.

Directors' report (cont'd)

Review of operations (cont'd)

Our technical base has been improved with the addition of experienced personnel over the past 12 months enabling us to evaluate and promote more projects and prospective business for the group.

In March 2003, Hydromet made a debenture issue offer to sophisticated investors to raise up to $3 million for the purpose of pursuing project opportunities and ongoing sustainable business prospects for the group. At 30 June 2003 $700,000 had been raised. As you will be aware from our June announcement certain Directors of Hydromet have indicated an interest in taking up part of the issue. Subsequent to year end, $500,000 has been taken up by the Chairman and founding Director, Dr Lakshman Jayaweera.

We have continued to explore possible alliance opportunities with other waste management companies with the objective of combining the various expertises of both companies to develop complimentary services and wider networking to maximize the promotion of the Hydromet product to industry. There is strong interest from related waste management organisations that do not posses the level of proven recycling and immobilisation techniques created by Hydromet.

Dividends

Dividends paid or declared by the Company to members since the end of the previous financial year were:

	Cents per share	Total amount $	Date of payment	Tax rate for franking credit
■ In respect of the previous financial year:				
- Final – ordinary shares	0.15	403,441	25 October 2002	30%

State of affairs

During the year the Company paid a $403,441 dividend to shareholders based on 0.15 cents per share. Through the Dividend Reinvestment Plan, $53,206 of the dividend payable was converted to 1,159,183 ordinary shares.

During the financial year the consolidated entity installed plant and equipment totalling $2.327 million. These acquisitions were to facilitate the Onesteel EAF Dust project along with improvements to the precious metal project and upgrades to existing plant facilities where required.

Directors' report (cont'd)

Environmental performance

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

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

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

Site managers are responsible for management and monitoring of compliance with the various licences, environmental regulations and specific requirements of site environmental licence conditions under which the facilities operate Site managers report environmental performance to the Managing Director on a monthly basis who then reports to the Board. Performance against the licence conditions are reported to the Managing Director, Board of Directors and various state regulators on an annual 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.

The Company is currently reviewing existing environmental systems and procedures with the objective of upgrading these via the implementation of an Environmental Management System, which will integrate with the Safety Management System and will apply uniformly across the group, including processing facilities in New Zealand.

The POEO Act is under review by the NSW Environment Protection Authority and will lead to further changes to regulations and group a number of regulations under the one Act.

Hydromet is committed to seeking improvement in environmental management and awareness of its employees to ensure continuing compliance with its obligations.

Occupational Health and Safety Performance

As with environmental matters Hydromet is acutely conscious of its health and safety obligations to its workforce who by the very nature of our industry are exposed to a range of chemicals and hazardous materials in carrying out their work.

Occupational health and safety issues are governed by the OHS Regulation 2001 in New South Wales and monitored by Workcover Authority.

Hydromet, along with a number of other companies, was subjected to a random Major Hazard facility audit in August 2002 at which its existing safety systems were reviewed, evaluated and compared to the revised and expected future regulations relating to the health and safety management of sites such as Hydromet's.

The audit reported areas of compliance and those requiring attention to meet current standards and expected changes to those standards. As a result the Company has commenced to revise its systems and implement an upgraded and integrated Safety Management System which will meet regulatory and duty of care obligations. The revised Safety Management System will provide employees, contractors and management with an improved occupational health and safety environment, and continue to build a strong safety culture across the group.

We are pleased to report that there were no serious injuries or major lost time incidents during the financial year.

Directors' report (cont'd)

Events subsequent to balance date

The Exide New Zealand lead slag immobilisation project scheduled for commencement in August has been delayed due to failure of an equipment supplier to meet the delivery schedule. We expect to commission the plant in Wellington in September.

Since 30 June the Company has been in discussion and negotiation with a number of companies in relation to providing waste disposal solutions for their particular problems. These prospective business opportunities would utilise Hydromet's immobilisation technology and represent significant additional revenue for the group if proposals are accepted by these clients.

Other than those matters referred to above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity, in future financial years.

Likely developments

Although the Company has experienced a difficult year in transition from the Rio Tinto immobilisation project a number of promising opportunities emerged during the latter part of the financial year and indeed since 30 June which have potential to make a strong ongoing contribution to the group.

We will adapt our zinc sulphate production and marketing strategy to take account of current market conditions affecting the profitability of this important business element. This will result in lower than expected sales while the market stabilises.

The Company had seven prospective projects under review and at various stages of development at 30 June 2003 and has since entered discussions on a further four prospects. This is a strong signal of support for the services offered by the group and demonstrates the changing industry attitude to waste recycling and disposal. Whilst we believe our services are undervalued the changing regulatory and corporate demands on industry has resulted in realistic treatment fees slowly becoming acceptable by generators and a cost element recognised in their respective production processes.

There is an increasing demand for immobilisation technology of the type developed and proven by Hydromet and many of these potential projects are of interest to the Company. Hydromet has had 18 specific process approvals issued to date by New South Wales Environment Protection Authority. This compares to six at the same time in 2002. In addition we have approval from the Wellington Regional Council in New Zealand for our Lead Slag Immobilisation process to be utilised on the Exide Technologies project.

We have received a number of inquiries for our services from other states in Australia as well as New Zealand along with the United States and Canada who are interested in our precious metal upgrading process.

Directors' report (cont'd)

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 $	Options issued $	Total $
Executive Directors					
Mr GW Wrightson	174,994	35,035	13,950	-	223,979
Dr LD Jayaweera	159,998	51,641	9,600	-	221,239
Non - Executive Directors					
Mr SH Kwan	25,000	14,619	2,250	-	41,869
Mr PS Tang	25,000	14,619	2,250	-	41,869
Mr TR Allen	25,000	14,619	-	-	39,619

The options were issued to the directors on 19 December 2002, they have been independently valued at a fair value of $Nil. The fair value of the options was calculated at the date of grant using Black-Scholes Option Pricing model. As described below the options have four vesting periods and in allocating their values each instalment has been treated separately.

The following factors and assumptions were used in determining the fair value of options on grant date:

Grant date	Expiry date	Exercise price	Price of shares on grant date	Estimated volatility	Risk free interest rate	Dividend yield
19 December 2002	31 March 2007	$0.08	$0.047	7.31%	4.79%	N/A

Estimated volatility approximates historic volatility. Each option entitles the holder to purchase one ordinary share in the Company. 2,500,000 options will be exercisable after 31 December 2003; 2,500,000 after 31 December 2004; 2,500,000 after 31 December 2005 and 2,500,000 after 31 December 2006. All options expire on 31 March 2007. Further details of options granted are set out under "Options" below.

Directors' report (cont'd)

Options

During or since the end of the financial year, the Company granted options over unissued ordinary shares to the following directors.

	Number of options granted	Exercise price	Expiry date
Directors			
Mr GW Wrightson	2,000,000	$0.08	31 March 2007
Dr L Jayaweera	2,000,000	$0.08	31 March 2007
Mr P Tang	2,000,000	$0.08	31 March 2007
Mr TR Allen	2,000,000	$0.08	31 March 2007
Mr SH Kwan	2,000,000	$0.08	31 March 2007

All options were granted by the Company during the financial year and are held over ordinary shares. No options have been granted since the end of the financial year.

6,000,000 options issued to Chemmet Pty Ltd, a director related entity, for the acquisition of Stanton Prospect tenement in 2001 expired on 28 August 2003.

Unissued shares under option

At the date of this report unissued ordinary shares of the Company under option are:

Expiry date	Exercise price	Number of options
31 March 2007	$0.08	10,000,000

During or since the end of the financial year, the Company has not issued ordinary shares as a result of the exercise of options.

These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

Directors' report (cont'd)

Directors' interests

The relevant interest of each director in the shares issued by the Company, 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	Hydromet Corporation Limited	
	Options over ordinary shares	Ordinary shares
Mr TR Allen	2,000,000	2,300,000
Dr LD Jayaweera	2,000,000	15,308,250
Mr SH Kwan	2,000,000	46,000
Mr PS Tang	2,000,000	80,000
Mr GW Wrightson	2,000,000	578,300

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 a retired director, 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 insurance 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.

Signed in accordance with a resolution of the directors:

Dr Lakshman Jayaweera
Chairman

Dated at Wollongong this 9th day of September 2003.

Hydromet Corporation Limited and its controlled entities

Statements of financial performance
for the year ended 30 June 2003

	Note	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
Revenue from rendering of services		3,153,927	10,612,973	-	-
Revenue from sale of goods		1,260,928	740,302	-	-
Other revenues from ordinary activities		342,187	257,749	171,168	107,720
Total revenue	3	4,757,042	11,611,024	171,168	107,720
Raw materials and consumables used		(1,422,668)	(2,321,428)	-	-
Direct production costs		(2,031,780)	(2,666,621)	-	-
Employee expenses		(2,929,188)	(2,560,263)	(1,109,374)	(1,009,804)
Depreciation and amortisation expenses	4	(1,352,153)	(1,209,680)	(35,002)	(28,986)
Diminution of intercompany loans and investments		-	-	(3,248,864)	(186,567)
Borrowing costs	4	(64,313)	(17,716)	(24,213)	(10,535)
Consultants and professional services		(304,387)	(235,045)	(267,070)	(204,713)
Insurance expenses		(225,254)	(171,189)	(143,519)	(99,483)
Property rental and site costs		(407,720)	(254,611)	(28,975)	(16,573)
Other expenses from ordinary activities		(472,545)	(746,919)	(319,637)	(301,657)
Total expenses		(9,210,008)	(10,183,472)	(5,176,654)	(1,858,318)
Profit/(loss) from ordinary activities before related income tax expense	4	(4,452,966)	1,427,552	(5,005,486)	(1,750,598)
Income tax (expense)/benefit relating to ordinary activities	6	-	-	-	-
Net profit/(loss) attributable to members of the parent entity		(4,452,966)	1,427,552	(5,005,486)	(1,750,598)
Net increase in accumulated losses on initial adoption of revised AASB 1028 “Employee Benefits”	2	(13,000)	-	-	-
Total changes in equity from non-owner related transactions attributable to members of the parent entity		(4,465,966)	1,427,552	(5,005,486)	(1,750,598)
Basic and diluted (loss)/earnings per ordinary share	8	(1.651) cents	0.710 cents		

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 22 to 57.

Hydromet Corporation Limited and its controlled entities
Statements of financial position
as at 30 June 2003

	Note	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
Current assets					
Cash assets	9	1,261,173	6,776,781	1,027,780	6,385,623
Receivables	10	1,368,666	1,968,949	21,964	289,855
Inventories	12	334,808	233,933	-	-
Total current assets		2,964,647	8,979,663	1,049,744	6,675,478
Non-current assets					
Receivables	10	-	-	7,449,027	5,837,692
Other financial assets	11	-	-	1,413,538	1,977,971
Property, plant and equipment	13	9,139,713	7,770,105	199,427	94,768
Exploration, evaluation and development expenditure	14	302,199	302,199	-	-
Intangible assets	15	908,034	1,152,678	-	-
Total non-current assets		10,349,946	9,224,982	9,061,992	7,910,431
Total assets		13,314,593	18,204,645	10,111,736	14,585,909
Current liabilities					
Payables	16	1,581,487	1,635,338	84,510	270,139
Interest-bearing liabilities	17	74,384	33,303	63,544	23,765
Provisions	18	1,302,321	2,131,272	261,979	254,176
Total current liabilities		2,958,192	3,799,913	410,033	548,080
Non-current liabilities					
Interest-bearing liabilities	17	855,536	96,766	117,446	47,839
Provisions	18	638,301	629,201	46,188	34,740
Loans from controlled entities	31(b)	-	-	4,449,509	3,510,969
Total non-current liabilities		1,493,837	725,967	4,613,143	3,593,548
Total liabilities		4,452,029	4,525,880	5,023,176	4,141,628
Net assets		8,862,564	13,678,765	5,088,560	10,444,281
Equity					
Contributed equity	19	63,000,126	62,946,920	63,000,126	62,946,920
Reserves	20	505,688	505,688	150,000	150,000
Accumulated losses	21	(54,643,250)	(49,773,843)	(58,061,566)	(52,652,639)
Total equity		8,862,564	13,678,765	5,088,560	10,444,281

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 22 to 57.

Hydromet Corporation Limited and its controlled entities

Statements of cash flows
for the year ended 30 June 2003

	Note	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
Cash flows from operating activities					
Cash receipts in the course of operations		4,996,723	11,555,178	30	-
Cash payments in the course of operations		(8,771,189)	(9,522,739)	(1,748,905)	(1,597,873)
Interest received		151,598	114,920	142,665	101,183
Borrowing costs paid		(52,209)	(17,716)	(24,213)	(10,535)
Net cash provided by/(used in) operating activities	33(b)	(3,675,077)	2,129,643	(1,630,423)	(1,507,225)
Cash flows from investing activities					
Proceeds (to)/from loans to controlled entities		-	-	(3,357,226)	2,965,840
Proceeds from sale of non-current assets		49,878	102,166	28,473	-
Payments for exploration, evaluation and development expenditure		-	(10,000)	-	-
Payments for property, plant and equipment		(2,326,600)	(1,425,046)	(157,818)	(46,924)
Net cash (used in)/provided by investing activities		(2,276,722)	(1,332,880)	(3,486,571)	2,918,916
Cash flows from financing activities					
Lease payments		(102,302)	(33,466)	(34,494)	(31,933)
Proceeds from share placements		53,206	3,718,317	53,206	3,718,317
Proceeds from borrowings		888,728	129,550	143,880	69,550
Dividends Paid		(403,441)	-	(403,441)	-
Net cash provided by/(used in) financing activities		436,191	3,814,401	(240,849)	3,755,934
Net increase/(decrease) in cash held		(5,515,608)	4,611,164	(5,357,843)	5,167,625
Cash at the beginning of the financial year		6,776,781	2,165,617	6,385,623	1,217,998
Cash at the end of the financial year	33(a)	1,261,173	6,776,781	1,027,780	6,385,623

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 22 to 57.

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 as set out in Note 2, 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.

The consolidated annual financial report has been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and liabilities in the ordinary course of business.

Financial position – going concern

The consolidated entity incurred a loss from ordinary activities of $4,452,966 for the financial year ended 30 June 2003. The result was adversely impacted by:

- a three month delay in implementation of the OneSteel project;
- additional waste treatment and disposal costs on an immobilisation project;
- problems encountered with contaminants in the EAF dust impacting on the production of zinc products; and
- a weak zinc product market due to the drought and cheap alternatives being imported from China.

These issues, and capital expenditure of $,2,326,600, have resulted in the consolidated entity's cash position decreasing during the financial year ended 30 June 2003 by $5,515,608. At 30 June 2003, the consolidated entity's cash position was $1,261,173.

At 30 June 2003, the consolidated entity had net assets of $8,862,564 and positive working capital of $6,455.

1 Statement of significant accounting policies (cont'd)

Financial position (cont'd)

The directors consider the result for the financial year to be due to short term difficulties experienced during the recent transition from one major project to another. In response to these difficulties, the directors and management have taken the following steps, designed to manage and improve the current financial position of the consolidated entity:

- at this stage of implementation of the OneSteel project measures have been undertaken to reduce fixed operating and associated costs, including reduction in operating personnel to the minimum level required to effectively operate the plant;
- additional control measures have been implemented to monitor progress to forecast expectations;
- achieved the sourcing of other feed options for the zinc circuit to enhance production and accelerate entry into the zinc market;
- increased revenue, through the successful completion of an additional precious metal recovery trial, which should lead to an ongoing treatment project; and
- progress has been made on the development of new projects with potential to contribute to the profitability of the consolidated entity.

In acknowledgement of the result for the financial year ended 30 June 2003 and in light of future projects emerging, the directors consider that meeting the following important objectives is the key to long term sustainable business for the company:

- throughput of 7,000 tonnes per annum of electric arc furnace dust from OneSteel;
- work with OneSteel to improve the consistency of the chemical composition of the electric arc furnace dust or, alternatively, re-negotiate the terms of the contract;
- successful re-entry to the zinc sulphate market, which is currently being impacted by the drought and cheap imports;
- continued growth in the selenium based precious metal recovery projects at the MinMet site;
- successful completion of immobilisation of 4,000 tonnes of lead slag;
- the successful implementation of projects currently at various stages of development including:
  - establishment of a mercury immobilisation project;
  - securing of other immobilisation projects for the Unanderra plant;
  - pilot trial to recover and use a spent acid source for the Zinc circuit;
  - progressing plans to establish a used lead acid battery recycling process at the Unanderra facility; and
  - securing of contracts to treat water treatment sludge.

1 Statement of significant accounting policies (cont'd)

Financial position (cont'd)

The action plans outlined above are to be implemented during the year ending 30 June 2004. A key objective of these plans is to move the consolidated entity to a net positive cash flow position. If these plans are not successful net cash outflows may continue at the current unsustainable levels, which will adversely impact on the consolidated entity's ability to continue as a going concern. Despite this uncertainty, the directors believe that the going concern basis of preparation of the financial statements is appropriate for the following reasons:

- with the cost reduction measures recently implemented and following an evaluation of the base case contribution of existing projects, the directors believe that the consolidated entities cash position will be sustainable;
- the company is progressing the development of a number of new profitable projects that should be implemented in the short to medium term;
- increasing support received from industry and regulators is expected to continue to facilitate the development of larger scale long term projects for the company; and
- increased awareness of Hydromet's facilities and capabilities has led to prospective opportunities associated with difficult waste streams which can only be dealt with using technology developed by the company over the past five years and a result of a number of successful projects.
- Hydromet Corporation Debenture Nominees Pty Limited is the issuer of a debenture trust deed that provides the facility for the consolidated entity to raise a total of $3,000,000 in funding through debenture instruments. As at 30 June 2003 a total of $700,000 had been raised, and as at the date of signing the accounts, an additional $500,000 has been raised.

On the basis of the above, the consolidated financial report has been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and liabilities in the ordinary course of business.

(b) Principles of consolidation

Controlled entities

The financial statements of controlled entities are included in the consolidated financial statements 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.

1 Statement of significant accounting policies (cont'd)

(b) Principles of consolidation (cont'd)

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.

Unrealised gains resulting from transactions with associates, including those relating to contributions of non-monetary assets on establishment, are eliminated to the extent of the consolidated entity's interest. Unrealised gains relating to associates are eliminated against the carrying amount of the investment. Unrealised losses are eliminated in the same way as unrealised gains, unless they evidence a recoverable amount impairment.

(c) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority.

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.

Unearned income

Income received in advance is deferred until the services are performed.

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.

Interest revenue

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

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 general reserve on disposal.

1 Statement of significant accounting policies (cont'd)

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. Where a grant is received relating to research and development costs that have been deferred, the grant is deducted from the carrying amount of the deferred research and development costs.

(d) 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 taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part 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 taxation authority 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 taxation authority are classified as operating cash flows.

(e) 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.

(f) 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, 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.

1 Statement of significant accounting policies (cont'd)

(g) Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net profit/(loss) attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity, by the weighted average number of ordinary shares of the Company.

(h) Taxation

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 statement of financial position 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 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.

(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.

The costs of assets constructed or internally generated by the consolidated entity, other than goodwill, include the cost of materials and direct labour.

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.

1 Statement of significant accounting policies (cont'd)

(j) Revisions of accounting estimates

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

(k) Receivables

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

(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.

Associates

In the Company's financial statements investments in associates are carried at the lower of cost and recoverable amount.

Other companies

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

Investments in other unlisted entities are carried at the lower of cost and recoverable amount.

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.

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 each reporting date. 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.

1 Statement of significant accounting policies (cont'd)

(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 expensed in the reporting period in which it occurs.

Current valuations for land and buildings valued on the cost basis are carried out at least once every three years.

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.

(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.

1 Statement of significant accounting policies (cont'd)

(r) Depreciation and amortisation (cont'd)

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

	2003 %	2002 %
Property, plant and equipment		
Buildings and freehold improvements	2.5	2.5
Plant and equipment	13-25	13-25
Office equipment and fixtures	13-27	13-27
Motor vehicles	15-25	15-25
Leased vehicles and machinery	15-25	15-25
Intangibles		
Hydroproc process	11	11

(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 30 days.

(t) Employee benefits

Wages, salaries, annual leave and sick leave

The provision for employee entitlements to wages, salaries, annual leave and sick leave expected to be settled within 12 months of the year-end represent present obligations resulting from employees' services provided up to the balance date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including 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 to reporting 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.

1 Statement of significant accounting policies (cont'd)

(t) Employee benefits (cont'd)

Employee share and option plans

Where shares or options are issued to employees as remuneration for past services, the difference between fair value of the shares or options issued and the consideration received, if any, from the employee is expensed. The fair value of the shares or options issued is recorded in the contributed equity. Shares or options issued to employees pursuant to the Employee Share Option Plan are recorded in contributed equity at the fair value of consideration received, if any.

Transaction costs associated with issuing shares and options are recognised in equity subject to the extent of the proceeds received, otherwise expensed. Other administrative costs are expensed.

Superannuation plan

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.

Dividends

Provisions for dividends payable are recognised in the reporting period in which they are declared for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

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 are 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

The consolidated entity is exposed to changes in commodity prices and foreign exchange rates from its activities. The consolidated entity uses forward foreign exchange contracts to hedge against these risks. Derivative financial instruments are not held for speculative purposes.

1 Statement of significant accounting policies (cont'd)

(v) Derivatives (cont'd)

Hedges

Anticipated transactions

Transaction are designated as a hedge of the anticipated specific purchase or sale of goods or services, only when they are expected to reduce exposure to the risks being hedged, are designated prospectively so that it is clear when an anticipated transaction has or has not occurred and it is probable the anticipated transaction will occur as designated. Gains or losses on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the anticipated transaction when the transaction has occurred as designated. Any gains or losses on the hedge transaction after that date are included in the statement of financial performance.

The net amounts receivable or payable under forward foreign exchange contracts and the associated deferred gains or losses are recorded on the statement of financial position for the date of inception of the hedge transaction. When recognised the net receivables or payables are revalued using the commodity rates current at reporting date.

When the anticipated transaction is no longer expected to occur as designated, the deferred gains or losses relating to the hedged transaction are recognised immediately in the statement of financial performance.

Where a hedge is redesignated as a hedge of another transaction, gains or losses arising on the hedge prior to its redesignation are only deferred where the original anticipated transaction is still expected to occur as designated. When the original anticipated transaction is no longer expected to occur as designated, any gains or losses relating to the hedge instrument are included ion the statement of financial performance for the period.

Gains or losses that arise prior to and upon the maturity of transaction entered into under hedge rollover strategies are deferred and included in the measurement of the hedged anticipated transaction if the transaction is still expected to occur as designated. If the anticipated transaction is no longer expected to occur as designated, the gains or losses are recognised immediately in the statement of financial performance.

2 Change in accounting policy

Employee benefits

The consolidated entity has applied the revised AASB 1028 "Employee Benefits" for the first time from 1 July 2002. The liability for wages and salaries, annual leave and sick leave is now calculated using the remuneration rates the Company expects to pay as at each reporting date, not wage and salary rates current at reporting date. Initial adjustments to the consolidated financial report as at 1 July 2002 as a result of this change are:

- $13,000 increase in provision for employee benefits; and
- $13,000 increase in opening accumulated losses.

As a result of this change in accounting policy, employee benefits expense of the consolidated entity increased by $17,920 (the Company: $10,421) for the current year to 30 June 2003.

		Consolidated		The Company	
		2003 $	2002 $	2003 $	2002 $
3	**Revenue from ordinary activities**				
	Rendering of services revenue from operating activities	3,153,927	10,612,973	-	-
	Sale of goods revenue from operating activities	1,260,928	740,302	-	-
	Other revenue:				
	From ordinary activities				
	■ Interest received from unrelated parties	151,598	114,920	142,665	101,183
	From outside ordinary activities				
	■ Gross proceeds on sales of property, plant and equipment	49,878	102,166	28,473	-
	■ Freight subsidy	39,375	-	-	-
	■ Other	101,336	40,663	30	6,537
	Total other revenue	342,187	257,749	171,168	107,720
	Total revenue from ordinary activities	4,757,042	11,611,024	171,168	107,720
4	**Profit/(loss) from ordinary activities before income tax expense**				
	Profit/(loss) from ordinary activities before income tax expense/(benefit) has been arrived at after charging/(crediting) the following items:				
	Cost of goods sold	624,337	173,530	-	-
	Borrowing costs paid or payable in respect to:				
	■ finance leases	19,702	8,543	12,711	6,015
	■ debenture costs	12,104	-	-	-
	■ financial institutions	28,697	8,469	-	4,520
	■ others	3,810	704	11,502	-
		64,313	17,716	24,213	10,535

	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
4 Profit/(loss) from ordinary activities before income tax expense (cont'd)				
Depreciation of:				
■ buildings and freehold improvements	81,950	79,588	-	-
■ plant and equipment	972,847	834,645	329	-
■ office equipment and fixtures	10,401	9,737	6,491	5,475
■ motor vehicles	22,057	16,447	6,714	7,313
Amortisation of:				
■ intangibles	244,643	244,644	-	-
■ leased vehicles and machinery	20,255	24,619	21,468	16,198
	1,352,153	1,209,680	35,002	28,986
Net expense/(credit) from movements in provision for:				
■ employee entitlements	61,057	136,448	19,251	94,169
■ disposal of residues	(880,908)	113,221	-	-
■ diminution in loans to controlled entities and investments	-	-	3,248,864	186,567
Operating lease rental expense	113,321	137,412	17,381	6,015
Research and development expenses	860	8,333	-	-
Net foreign exchange loss	15,493	80,430	27,449	62,207
Net loss/(gain) on sales of property, plant and equipment	(13,218)	46,258	(8,804)	-

5 Auditor's remuneration

	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
Audit services				
Auditors of the Company - KPMG				
■ Audit and review of the financial reports	69,355	57,551	9,765	8,245
■ Other regulatory audit services	1,611	1,909	1,611	900
	70,966	59,460	11,376	9,145
Other services				
Auditors of the Company – KPMG				
■ Taxation services	20,866	8,190	7,725	3,032
■ Advisory services	11,772	-	11,772	-
KPMG related practices				
■ Legal services	-	7,680	-	7,680
	103,604	75,330	30,873	19,857

6 Taxation

(a) *Income tax expense*

	Note	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
Prima-facie income tax expense/(benefit) calculated at 30% (2002: 30%) on the profit/(loss) from ordinary activities		(1,335,890)	428,266	(1,501,646)	(525,179)
Increase/(decrease) in income tax expense/(benefit) due to:					
■ non deductible depreciation and amortisation		97,414	97,270	-	-
■ non deductible diminution in value of investments		-	-	974,659	55,970
■ other non-deductible/(assessable) items		4,756	(13,740)	4,670	(14,010)
		(1,233,720)	511,796	(522,317)	(483,219)
Tax effect of losses not taken to account		1,481,097	-	477,479	-
Tax effect of timing differences not taken to account		(247,377)	-	36,142	-
Recovery of tax losses not previously brought to account		-	(511,796)	-	-
Tax losses transferred for nil consideration		-	-	8,696	483,219
		-	-	-	-

(b) *Future income tax benefit not taken to account*

	Note	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
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)	2,390,421	1,527,900	1,042,703	491,377

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.

	Note	Consolidated		The Company	
		2003	2002	2003	2002
		$	$	$	$

6 Taxation (cont'd)

(c) Tax consolidation

During the year, legislation was enacted to allow groups, comprising a parent entity and its Australian resident wholly-owned entities, to elect to consolidate and be treated as a single entity for income tax purposes. The legislation, which includes both mandatory and elective elements, is applicable to the consolidated entity.

As at reporting date, the Directors have not made a decision to elect to be taxed as a single entity. In accordance with Urgent Issues Group (UIG) Consensus Views, UIG 39 "Effect of proposed tax consolidation legislation on deferred tax balance", the financial effect of the legislation has therefore not been brought to account in the financial statements for the year ended 30 June 2003, except to the extent that the adoption of the tax consolidation would impair the carrying value of any deferred tax assets. This change has had no financial impact on the company or consolidated entity.

7 Dividends

Type	Cents per share	Total $	Date of payment	Tax rate for franking credit	Percentage franked
2002 final dividend recognised when declared during the year					
Final ordinary	0.15	403,441	25 October 2002	30%	100%

	The Company	
	2003	2002
	$	$
Dividend franking account		
30% franking credits available to shareholders of HydroMet Corporation Limited for subsequent financial years	3,216,850	3,389,754

7 Dividends (cont'd)

The above available amounts are based on the balance of the dividend franking account at year end adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax;
- franking debits that will arise from the payment of dividends recognised as a liability at the year end;
- franking credits that will arise from the receipt of dividends recognised as receivables at the year end; and
- franking credits that the entity may be prevented from distributing in subsequent years.

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

From 1 July 2002 the New Business Tax System (Imputation) Act 2002 requires measurement of franking credits based on the amount of income tax paid, rather than after tax profits.

As a result the "franking credits available" were converted from $7,909,425 to $ 3,389,754 as at 30 June 2002.

This change in the basis of measurement does not change the value of franking credits to shareholders who may be entitled to franking credit benefits.

8 Earnings per share

There is only one class of share – ordinary share in issue during the year.

The average market value of the shares was well below the exercising prices of all the options in issue at the end of the financial year. There are no dilutive potential ordinary shares as all options in existence as at 30 June 2003 were out of the money.

Earnings reconciliation

	Consolidated	
	2003	2002
	$	$
Net profit/(loss)	(4,452,966)	1,427,552
Basic earnings/(loss)	(4,452,966)	1,427,552
	No.	No.
Weighted average number of ordinary shares used as the denominator in the calculation of basic earnings per share	269,737,780	201,154,077

		Note	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
9	**Cash assets**					
	Cash at bank and on hand		1,261,173	548,698	1,027,780	157,540
	Bank short term deposits		-	6,228,083	-	6,228,083
			1,261,173	6,776,781	1,027,780	6,385,623
10	**Receivables**					
	Current					
	Trade debtors		447,178	931,460	-	-
	Provision for doubtful trade debtors		(173)	(698)	-	-
			447,005	930,762	-	-
	Sundry debtors		921,661	1,038,187	21,964	289,855
			1,368,666	1,968,949	21,964	289,855
	Non-current					
	Loans to controlled entities		-	-	35,870,606	31,574,840
	Provision for doubtful debts		-	-	(28,421,579)	(25,737,148)
		31(b)	-	-	7,449,027	5,837,692
	Loans to associated company	24	194,510	194,510	194,510	194,510
	Provision for doubtful debts		(194,510)	(194,510)	(194,510)	(194,510)
			-	-	-	-
			-	-	7,449,027	5,837,692
11	**Other financial assets**					
	Non-current					
	Investments in controlled entities – unlisted shares at cost	22	-	-	13,287,558	13,287,558
	Provision for diminution in investments		-	-	(11,874,020)	(11,309,587)
			-	-	1,413,538	1,977,971
	Investment in associate – unlisted shares at cost	24	1,108,852	1,108,852	-	-
	Provision for diminution in investments		(1,108,852)	(1,108,852)	-	-
			-	-	-	-
			-	-	1,413,538	1,977,971

		Consolidated		The Company	
		2003 $	2002 $	2003 $	2002 $
12	**Inventories**				
	Current				
	■ Raw materials and stores - at cost	124,210	125,677	-	-
	■ Work in progress - at cost	93,818	87,762	-	-
	■ Finished goods - at cost	116,780	20,494	-	-
		334,808	233,933	-	-
13	**Property, plant and equipment**				
	Freehold land – at cost	1,794,580	1,794,580	-	-
	Buildings and freehold improvements – at cost	3,299,227	3,239,160	-	-
	Accumulated depreciation	(607,545)	(525,300)	-	-
		2,691,682	2,713,860	-	-
	Plant and equipment - at cost	16,824,859	14,582,080	3,100	-
	Accumulated depreciation	(12,421,284)	(11,514,613)	(329)	-
		4,403,575	3,067,467	2,771	-
	Office equipment and fixtures - at cost	214,176	200,955	143,382	132,836
	Accumulated depreciation	(185,448)	(175,047)	(123,936)	(117,445)
		28,728	25,908	19,446	15,391
	Motor vehicles - at cost	132,641	79,066	48,744	48,744
	Accumulated depreciation	(58,336)	(37,745)	(18,377)	(11,663)
		74,305	41,321	30,367	37,081
	Leased vehicles and machinery - at cost	172,062	250,550	172,062	161,000
	Accumulated amortisation	(25,219)	(123,581)	(25,219)	(118,704)
		146,843	126,969	146,843	42,296
	Total property, plant and equipment - net book value	9,139,713	7,770,105	199,427	94,768

13 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 2003 $	The Company 2003 $
Freehold land		
Carrying amount at beginning and end of year	1,794,580	
Buildings and freehold improvements		
Carrying amount at beginning of year	2,721,922	-
Additions	51,710	-
Depreciation	(81,950)	-
Carrying amount at end of year	2,691,682	-
Plant and equipment		
Carrying amount at beginning of year	3,295,373	-
Additions	2,098,032	3,100
Disposals	(16,983)	-
Depreciation	(972,847)	(329)
Carrying amount at end of year	4,403,575	2,771
Office equipment and fixtures		
Carrying amount at beginning of year	28,319	15,391
Additions	11,102	10,838
Disposals	(292)	(292)
Depreciation	(10,401)	(6,491)
Carrying amount at end of year	28,728	19,446

13 Property, plant and equipment (cont'd)

	Consolidated 2003 $	The Company 2003 $
Motor vehicles		
Carrying amount at beginning of year	74,494	37,081
Additions	21,876	-
Disposals	(8)	-
Depreciation	(22,057)	(6,714)
Carrying amount at end of year	74,305	30,367
Leased vehicles and machinery		
Carrying amount at beginning of year	42,595	43,808
Additions	143,880	143,880
Disposals	(19,377)	(19,377)
Amortisation	(20,255)	(21,468)
Carrying amount at end of year	146,843	146,843

Current valuations – land and buildings

An independent valuation was carried out on 15 August 2003 by Mr JR Harrington AAPI Certified Practising Valuer on the land and buildings 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 $1,300,000, $297,579 above its net book value.

An independent valuation was carried out on 30 June 2002 by Mr WG Bramall, FAPI, AREI on the land and buildings 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 property was valued at $4,100,000, $600,827 above its net book value.

Capital gains tax has not been recognised in determining the valuation of land and buildings. Capital gains tax would not be payable if the assets were sold at reporting date.

The valuation is in accordance with Hydromet's policy of obtaining an independent valuation of land and buildings every three years. As land and buildings are recorded at cost, the valuation has not been brought to account.

Notes to the financial statements
for the year ended 30 June 2003

		Note	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
14	**Exploration, evaluation and development expenditure**					
	Costs carried forward in respect of an area of interest in the exploration stage:					
	Purchase consideration		240,000	240,000	-	-
	Exploration and evaluation expenditure capitalised		62,199	62,199	-	-
			302,199	302,199	-	-
15	**Intangible assets**					
	Hydroproc process - at cost		2,217,323	2,217,323	-	-
	Accumulated amortisation		(1,309,289)	(1,064,645)	-	-
			908,034	1,152,678	-	-

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

		Note	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
16	**Payables**					
	Current					
	Trade creditors		663,298	786,986	39,057	225,641
	Other creditors and accruals		311,396	691,500	45,453	44,498
	Unearned income		606,793	156,852	-	-
			1,581,487	1,635,338	84,510	270,139
17	**Interest bearing liabilities**					
	Current					
	Lease liabilities	23	74,384	33,303	63,544	23,765
	Non-current					
	Debentures		700,000	-	-	-
	Lease liabilities	23	155,536	96,766	117,446	47,839
			855,536	96,766	117,446	47,839

17 Interest bearing liabilities (cont'd)

Finance lease facility

The consolidated entity's lease liabilities are secured by the leased assets of $146,843 (2002: $126,969), as in the event of default, the assets revert to the lessor.

Debentures

The debentures were issued on 26 March 2003 ($500,000), 30 May 2003 ($100,000) and 18 June 2003 ($100,000). The face value of each debenture is $1. The debentures have a term of three years from the date of issue, and attract an interest rate of 12% per annum, to be paid in arrears, semi-annually on 31 March and 30 September, respectively. The debenture holders have a fixed and floating charge over the assets of the company and its controlled entites.

18 Provisions

	Note	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
Current					
Employee entitlements	25	451,633	399,676	261,979	254,176
Disposal of residues	26(a)	850,688	1,731,596	-	-
		1,302,321	2,131,272	261,979	254,176
Non-current					
Employee entitlements	25	78,301	69,201	46,188	34,740
Site clean up	26(a)	560,000	560,000	-	-
		638,301	629,201	46,188	34,740

Reconciliations

Reconciliations of the carrying amounts of each class of provision, except for employee benefits are set out below:

	Consolidated 2003 $	The Company 2003 $
Disposal of residues – current		
Carrying amount at beginning of year	1,731,596	-
Payments made during the period	(880,908)	-
Carrying amount at end of year	850,688	-
Site clean up – non current		
Carrying amount at beginning of year	560,000	-
Payments made during the year	-	-
Carrying amount at end of year	560,000	-

	Consolidated		The Company	
	2003	2002	2003	2002
	$	$	$	$
19 Contributed equity				
Share capital				
270,131,585 (2002: 268,972,402) ordinary shares, fully paid	63,000,126	62,946,920	63,000,126	62,946,920
	63,000,126	62,946,920	63,000,126	62,946,920
Movements during the year				
Ordinary shares				
Balance at the beginning of year	62,946,920	59,228,603	62,946,920	59,228,603
Shares issued				
■ 1,159,183 for cash issued under dividend reinvestment plan	53,206	-	53,206	-
■ Nil (2002: 43,957,184) for cash issued under Share Purchase Plan	-	2,197,859	-	2,197,859
■ Nil (2002: 36,000,000) for cash issued by private placement to professional investors	-	1,800,000	-	1,800,000
■ transaction costs arising from issues for cash	-	(279,542)	-	(279,542)
Balance at end of year	63,000,126	62,946,920	63,000,126	62,946,920

Terms and conditions

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.

Options

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

20 Reserves

	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
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

There has been no movement in reserves during the past financial year.

Nature and purpose of reserves

General

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

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.

21 Accumulated losses

	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
Accumulated losses at beginning of year	(49,773,843)	(51,201,395)	(52,652,639)	(50,902,041)
Net profit/(loss) attributable to members of the parent entity	(4,452,966)	1,427,552	(5,005,486)	(1,750,598)
Net effect of initial adoption of revised AASB 1028 "Employee Benefits"	(13,000)	-	-	-
Net effect from dividends recognised during the year	(403,441)	-	(403,441)	-
Accumulated losses at end of year	(54,643,250)	(49,773,843)	(58,061,566)	(52,652,639)

22 Particulars in relation to controlled entities

Name	Note	Consolidated entity interest 2003 %	Consolidated entity interest 2002 %
Parent entity			
HydroMet Corporation Limited			
Controlled entities			
■ HydroMet Operations (Southern) Limited	(i)	100	100
■ HydroMet Technologies Pty Limited		100	100
■ HydroMet Operations (NT) Pty Limited	(i)	100	100
■ HydroMet Operations (Tasmania) Pty Limited	(i)	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	(i)	100	100
Subsidiary of which is:			
- Enviromet Operations Pty Limited	(i)	100	100
■ MinMet Unit Trust	(ii)	100	100
■ Hydromet Corporation Debenture Nominees Pty Limited	(i) (iii)	100	-

Notes

(i) refer to note 35 for details of Deed of Cross Guarantee.

(ii) 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.

(iii) Hydromet Corporation Debenture Nominees Pty Limited was incorporated in Australia during the financial year. Hydromet Corporation Debenture Nominees Pty Limited has been issued debentures to the value of $700,000 as at 30 June 2003.

	Note	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $

23 Commitments

Operating lease expense commitments
Future operating lease commitments not provided for in the financial statements and payable:

	Note	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
■ within one year		-	120,000	-	-

The consolidated entity leased property under an operating lease which expired during the year and was not renewed.

Finance lease payment commitments
Finance lease commitments are payable:

	Note	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
■ within one year		90,855	46,945	74,327	30,419
■ one year or later and no later than five years		196,420	119,164	128,361	57,188
		287,275	166,109	202,688	87,607
Less: Future lease finance charges		(57,355)	(36,040)	(21,698)	(16,003)
		229,920	130,069	180,990	71,604
Lease liabilities provided for in the financial statements:					
■ Current	17	74,384	33,303	63,544	23,765
■ Non-current	17	155,536	96,766	117,446	47,839
Total lease liability		229,920	130,069	180,990	71,604

The consolidated entity leases vehicles and plant and equipment under various leases expiring from one to five years. At the end of the lease terms, the consolidated entity will purchase the assets at fixed percentages of original cost. The end of term residual values are included in the total finance lease payment commitments.

Capital expenditure commitments
Plant and equipment

	Note	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
Contracted but not provided for and payable within one year		-	33,000	-	-

24 Investment in associated companies

Interest is held in the following associated company:

Name	Principal activities	Balance date	Ownership interest		Investment carrying amount	
			2003 %	2002 %	2003 $	2002 $
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 (2002: $194,510). A doubtful debt provision on the loan of $194,510 (2002: $194,510) has been made.

25 Employee entitlements

	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
Aggregate liability for employee entitlements, including on-costs				
■ Current	451,633	399,676	261,979	254,176
■ Non-current	78,301	69,201	46,188	34,740
	529,934	468,877	308,167	288,916
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%	5.4%	5.4%	5.4%
Settlement term (years)	10	10	10	10
Number of employees at year end	37	44	10	9

26 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 for the estimated costs of disposal of these by-products on hand at 30 June 2003. Refer Note 18 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

Under the terms of a Deed of Cross Guarantee, described in Note 35, the Company has guaranteed the repayment of all current and future creditors in the event any of the entities party to the Deed are wound up.

27 Directors' remuneration

Directors' income

The number of directors of the Company whose income from the Company or any related party falls within the following bands:

	The Company	
	2003 No	**2002 No**
$10,000 - $19,999	-	1
$20,000 - $29,999	-	1
$30,000 - $39,999	1	2
$40,000 - $49,999	2	-
$190,000 - $199,999	-	2
$220,000 - $229,999	2	-

27 Directors' remuneration (cont'd)

The remuneration bands are not consistent with the emoluments disclosed in the Directors' report as the basis of calculation differs due to the differing requirements of the Corporations Act 2001 and the Accounting Standards.

	Consolidated		The Company	
	2003 $	2002 $	2003 $	2002 $
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	568,575	473,190	568,581	473,190

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.

28 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		The Company	
	2003 No	2002 No	2003 No	2002 No
$190,000 - $199,999	-	2	-	2
$220,000 - $229,999	2	-	2	-
	$	$	$	$
Total income in respect of the financial year 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	445,218	383,927	445,223	383,927

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.

The remuneration bands are not consistent with the emoluments disclosed in the Directors' report due to the differing requirements of the Corporations Act 2001 and the Accounting Standards.

29 Segment information

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

30 Events subsequent to balance date

The Exide New Zealand lead slag immobilisation project scheduled for commencement in August has been delayed due to failure of an equipment supplier to meet the delivery schedule. We expect to commission the plant in Wellington in September.

Other than those matters referred to above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity, in future financial years.

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 SH Kwan, GW Wrightson, PS Tang, Dr LD Jayaweera and Mr TR Allen.

Details of directors' remuneration are set out in Note 27.

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

	2003 Number held	**2002 Number held**
HydroMet Corporation Limited:		
Ordinary shares	18,312,550	18,294,250
Options over ordinary shares	16,000,000	6,000,000

Directors' transactions in shares and share options

During the year, directors of their director related entities acquired 18,300 ordinary shares and were granted 10,000,000 options to subscribe for fully paid shares. On 28 August 2003, 6,000,000 options included in the year end total expired.

31 Related party transactions (cont'd)

(b) Wholly-owned group

Details of interests in wholly-owned controlled entities are set out at Note 22. 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 of the Company at reporting date are:

	Note	The Company 2003 $	The Company 2002 $
Non-current			
Loans receivable	10	7,449,027	5,837,692
Loans payable		4,449,509	3,510,969

Loans receivable

	2003 $	2002 $
Balance at the beginning of year	5,837,692	8,351,494
Increase/(decrease) in loans to controlled entities	1,611,335	(2,513,802)
Balance at the end of year	7,449,027	5,837,692

Loans payable

	2003 $	2002 $
Balance at the beginning of year	3,510,969	2,893,599
Increase in loans from controlled entities	938,540	617,370
Balance at the end of year	4,449,509	3,510,969

(c) Non-director related parties

The classes of non-director related parties are:

- wholly owned controlled entities (refer Notes 22 and 31(b)); and
- associates (refer Notes 11 and 24).

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 and the effective weighted average interest rates on classes of financial assets and financial liabilities is set out below:

	Note	Weighted avg interest rate	Floating interest rate	Fixed interest maturing in:		Non-interest bearing	Total
				1 year or less	1 to 5 years		
2003			$	$	$	$	$
Financial assets							
Cash	33(a)	4.4%	1,261,173	-	-	-	1,261,173
Receivables	10	-	-	-	-	1,368,666	1,368,666
			1,261,173	-	-	1,368,666	2,629,839
Financial liabilities							
Payables	16	-	-	-	-	974,694	974,694
Lease liabilities	17,23	8.7%	-	74,384	155,536	-	229,920
Debentures	17	12%	-		700,000	-	700,000
				74,384	855,536	974,694	1,904,614
2002							
Financial assets							
Cash	33(a)	4.9%	6,228,083	-	-	548,698	6,776,781
Receivables	10	-	-	-	-	1,968,949	1,968,949
			6,228,083	-	-	2,517,647	8,745,730
Financial liabilities							
Payables	16	-	-	-	-	1,478,486	1,478,486
Lease liabilities	17,23	8.5%	-	33,303	96,766	-	130,069
			-	33,303	96,766	1,478,486	1,608,555

(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 two customers at balance date. The exposure as a percentage of trade debtors:

- OneSteel 56%; and
- Falconbridge Europe SA 28%.

(c) *Net fair values of financial assets and liabilities*

The net fair values of financial assets and liabilities approximate their carrying amounts.

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. 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	
		2003 $	2002 $	2003 $	2002 $
Cash assets		-	548,698	-	157,540
Short term deposits	(i)	1,261,173	6,228,083	1,027,780	6,228,083
Total cash held		1,261,173	6,776,781	1,027,780	6,385,623

(i) Security over cash

A term deposit for $250,000 has been issued as security in respect of a bank guarantee issued to a customer of the consolidated entity.

(b) *Reconciliation of profit/(loss) from ordinary activities after income tax to net cash provided by/(used in) operating activities*

	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
Profit/(loss) from ordinary activities after income tax	(4,452,966)	1,427,552	(5,005,486)	(1,750,598)
Add/(less) non-cash items:				
■ Amortisation	264,898	269,263	21,468	16,198
■ Depreciation	1,087,255	940,417	13,534	12,788
■ Diminution in value of investments	-	-	3,248,864	186,567
■ Transfer of assets	(186,752)		(1,512)	
Add/(less) items classified as investing/financing activities:				
■ Loss/(profit) on sales of property, plant and equipment	(13,218)	46,258	(8,804)	-
Net cash provided by/(used in) operating activities before changes in assets and liabilities	(3,300,783)	2,683,490	(1,731,936)	(1,535,045)
Changes in assets and liabilities adjusted for effects of purchase and disposal of controlled entities during the financial year:				
■ Increase in inventories	(100,875)	(16,483)	-	-
■ (Decrease)/increase in receivables	600,283	(853,721)	267,891	(247,624)
■ Increase/(decrease) in payables	(53,851)	66,689	(185,629)	181,275
■ Increase/(decrease) in provisions	(819,851)	249,668	19,251	94,169
Net cash provided by/(used in) operating activities	(3,675,077)	2,129,643	(1,630,423)	(1,507,225)

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 18 specific approvals for treatment technologies developed by the Company.

In the 2002/2003 financial year waste treatment fees comprised 63% of total operating revenues earned with recycled product sales comprising the balance.

The Company earned these treatment fees from five major clients:

■ Falconbridge Europe SA	22%	\$0.993 million;
■ OneSteel	19%	\$1.387 million;
■ Pasminco	7%	\$0.326 million;
■ Transfield	9%	\$0.417 million; and
■ BHP Port Kembla	6%	\$0.246 million.

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, and directors' report.

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 2001, 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;
- Enviromet Operations Pty Limited; and
- Hydromet Corporation Debenture Nominees 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 2003 is set out on the following page.

35 Deed of cross guarantee (cont'd)

	Consolidated	
	2003	**2002**
	$	**$**
Statement of financial performance		
Profit/(loss) from ordinary activities before related income tax expense	(4,267,426)	562,976
Income tax expense relating to ordinary activities	-	-
Profit/(loss) from ordinary activities after related income tax expense	(4,267,426)	562,976
Accumulated loss at beginning of the year	(50,953,759)	(51,516,735)
Dividends recognised during the year	(403,441)	
Accumulated loss at the end of the year	(55,624,626)	(50,953,759)
Statement of financial position		
Cash assets	1,203,301	6,752,424
Receivables	400,432	1,274,518
Inventories	117,104	100,205
Total current assets	1,720,837	8,127,147
Receivables	1,402,242	1,317,760
Investments	1,662,277	1,662,277
Property, plant and equipment	7,358,668	6,012,324
Exploration, evaluation and development expenditure	-	-
Intangibles	908,034	1,152,678
Total non-current assets	11,331,221	10,145,039
Total assets	13,052,058	18,272,186
Accounts payable	664,196	1,238,300
Interest bearing liabilities	74,384	33,303
Provisions	907,789	1,760,193
Total current liabilities	1,646,369	3,031,796
Interest bearing liabilities	855,536	96,766
Provisions	78,301	59,470
Other liabilities	2,590,664	2,585,306
Total non-current liabilities	3,524,501	2,741,542
Total liabilities	5,170,870	5,773,338
Net assets	7,881,188	12,498,848
Contributed equity	63,000,127	62,946,920
Reserves	505,687	505,687
Accumulated losses	(55,624,626)	(50,953,759)
Total equity	7,881,188	12,498,848

Directors' declaration

1 In the opinion of the directors of HydroMet Corporation Limited ("the Company"):

(a) the financial statements and notes, set out on page 19 to 57, are in accordance with the Corporations Act 2001, including:

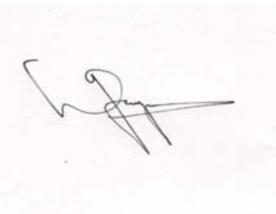
(i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2003 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(iii) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2 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 to by virtue of the Deed of Cross Guarantee between the Company and those subsidiaries pursuant to ASIC Class Order 98/1418.

Signed in accordance with a resolution of the directors:



Dr Lakshman Jayaweera
Director

Dated at Wollongong this 9th day of September 2003.

Independent audit report to members of Hydromet Corporation Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statements of financial position, statements of financial performance, statements of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Hydromet Corporation Limited (the "Company") and the Consolidated Entity for the year ended 30 June 2003. The Consolidated Entity comprises both the company and the entities it controlled during that year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Audit opinion

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

a) the Corporations Act 2001, including:

   i. giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2003 and of their performance for the financial year ended on that date; and

   ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

b) other mandatory professional reporting requirements in Australia.

Inherent uncertainty regarding continuation as a going concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1(a), there is significant uncertainty whether HydroMet Corporation Limited will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

KPMG

KPMG

Chris Hollis
Partner

Sydney
Dated the 9th day of September 2003.

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 29 August 2003)

Substantial shareholders

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

Shareholder	Ordinary
National Nominees	19,451,292

Voting rights

Ordinary shares

As at 15 August 2003 there were 2,597 holders of the ordinary shares of the Company. Refer to Note 19.

Options

Refer to Note 19.

Distribution of equity security holders

	Number of equity security holders	
Category	**Ordinary shares**	**Options**
1 - 1,000	312	-
1,001 - 5,000	405	-
5,001 - 10,000	238	-
10,001 - 100,000	1,226	-
100,001 and over	416	4
	2,597	4

The number of shareholders holding less than a marketable parcel is 955.

On-market buy-back

There is no current on-market buy-back.

Twenty largest shareholders

	Name	Number of ordinary shares held	Percentage of capital held
1	National Nominees	19,451,292	7.20
2	CHEMMET Pty Limited	11,798,250	4.37
3	Mr Ian Brooker Drummond	9,253,790	3.43
4	Picasso Holdings International Limited	8,500,000	3.15
5	Citicorp Nominees Pty Limited	7,518,400	2.78
6	Mrs Selina Wu	5,910,859	2.19
7	Leet Investments Pty Limited	5,078,617	1.88
8	Twynam Commodities Pty Limited	5,000,000	1.85
9	Linkenholt Pty Limited (Grant Austin Family A/C)	4,650,000	1.72
10	Merrill Lynch (Australia) Nominees Ltd	3,723,782	1.38
11	Chemmet Pty Limited Superannuation Fund	3,510,000	1.30
12	Igera Pty Ltd	2,800,000	1.04
13	Twynam Commodities Pty Ltd	2,500,000	0.93
14	Wightholme Nominees Pty Ltd	2,500,000	0.93
15	TSN Pty Ltd	2,250,000	0.83
16	Lenvat Pty Ltd	2,000,000	0.74
17	Elroa Nominees Pty Ltd	1,920,000	0.71
18	Penswood Pty Ltd	1,787,450	0.66
19	Linkenholt Pty Ltd (Super Fund A/C)	1,750,000	0.65
20	Leet Investment Pty Ltd (Super Fund A/C)	1,711,354	0.63
		103,613,794	38.37

Unquoted equity securities

Options

As at 29 August 2003, options over ordinary shares were held by:

	Options over ordinary shares	Exercise price	Expiry date
Mr TR Allen	2,000,000	$0.03	31 March 2007
Dr LD Jayaweera	2,000,000	$0.03	31 March 2007
Mr SH Kwan	2,000,000	$0.03	31 March 2007
Mr PS Tang	2,000,000	$0.03	31 March 2007
Mr GW Wrightson	2,000,000	$0.03	31 March 2007