HYDROMET CORPORATION LIMITED

A.B.N. 71 002 802 646

AND ITS CONTROLLED ENTITIES

HALF-YEAR FINANCIAL REPORT

31 DECEMBER 2000

HYDROMET CORPORATION LIMITED
and its controlled entities
Half-Year Financial Report 31 December 2000

CONTENTS

HYDROMET CORPORATION LIMITED
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Half-Year Financial Report 31 December 2000

DIRECTORS' REPORT

The directors present their report together with the consolidated financial report for the half-year ended 31 December 2000 and the review report thereon.

Directors

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

Dr Lakshman D Jayaweera, MSc, PhD, MIE Chairman Executive Director	Dr Jayaweera is one of the founders and the head of the technical team of the Company. Director since 1991, appointed Deputy Chairman in September 2000 and Chairman on 2 January 2001.
Mr Gregory W Wrightson Executive Director and Managing Director	Mr Wrightson has extensive experience in chemical manufacturing and was appointed the general manager of the Company in 1997. Appointed director in 1998 and appointed Managing Director in September 2000.
Mr Barry W O'Neill, D.App.Chem, A.SwTC, F.A.I.C.D Independent Non-executive Director	Mr O'Neill has extensive experience in chemical manufacturing. He is the Chairman of the Audit and Remuneration Committee. Appointed director in 1998 and Chairman from 1 June 1999 to 2 January 2001.
Mr. Pipvide S. Tang, MBA, CPA, FCCA Non-Executive Director	Mr Tang is a Member of the Audit and Remuneration Committee. Director from 1991 to 1996 and since 1997. Mr Tang was an Executive Director until August 2000.
Mr Stephen H Kwan, MPhil, ATI, MBIM Non-Executive Director	Mr Kwan is a director of Kee Shing (Holdings) Limited, a related entity of the Company. Member of the Audit and Remuneration Committee. Director since 1991.

Review of operations

The consolidated loss for the half-year ended 31 December 2000 attributable to the members of the Company was $616,281 (half-year 1999: loss $455,969).

The result for the six months to December 2000 was affected by the costs incurred in finalising interim approvals for and commencement of the Lead Immobilisation Project at Unanderra along with the Falconbridge Precious Metals Recovery Project for Newcastle. Once in place these projects will have a two year life with the Lead Project commencing in December 2000 and Falconbridge Project commencing in April 2001. The two projects will generate up to $16 Million in revenue over the period. Their implementation will also enable us to focus on two other significant recovery processes which have the potential to provide a long term core business for the group and place HydroMet firmly in the forefront of waste recycling technology.

The company arranged a share placement of 34,000,000 shares in September 2000 raising $1.4 Million. The funds raised from the share placement are to be utilised to finance plant and equipment for the Lead and Precious Metals projects and to continue evaluation of the Stanton prospect in the Northern Territory.

Following continuing difficulties in obtaining supplies of cobalt residue for our Cobalt Sulphate operation, HydroMet received approval at an extraordinary general meeting in September for the acquisition of the Stanton Prospect a mining exploration lease in the Northern Territory. The lease covers a Cobalt ore resource, which has been given an indicated resource value of $83 Million. Further evaluation work is continuing on the project with additional confirmation to be carried out in mid 2001, after the current wet season. The long term success of this project will provide a source of economic Cobalt ore which will place the company in a favourable position in the production of Cobalt chemicals**.**

In September the Board of Directors agreed with the Board of Hydromet Environmental Recovery Limited in Canada to sell our 14 million shares in the company for the equivalent of AUD $550,000. The investment had previously been written down to $1 due to poor expectations for the company based on the withdrawal of its EPA licence in the United States. Subsequent negotiating and business promotion by the HERL board has resulted in the possibility of recommencing operations in 2001. The HydroMet board considered the sale to be in the best interests of the company and the four stage sale which commenced in November 2000 will be concluded in April 2001.

We believe that with the Lead and Precious Metals projects operating to capacity from April – May 2001, the company will commence to generate strong returns and cash flows essential to the development of other important projects over the next twelve to eighteen months.

Individual site details are as follows:

Unanderra (Wollongong NSW)

The major change experienced compared to 1999 was the shift from Zinc Sulphate production with completion of Dam Fume treatment, to concentration on Tin Hydrate recovery and Fluoride immobilisation. The main focus at Unanderra over the past six months has continued to be the implementation of the Lead Immobilisation Process and meeting EPA commissioning report requirements. In December 2000 the $570,000 plant was commissioned with scale up occurring in January and February 2001. The directors are very pleased to report that processing rates achieved in February are approaching design capacity with all material processed meeting the stringent disposal criteria required by the EPA. At full operating levels revenue from the project is expected to reach $400,000 per month. NSW EPA is currently evaluating HydroMet's commissioning report and has requested additional information which, will be supplied by end March.

The Lead Immobilisation Project is a two year project and is expected to generate revenue totalling $11.5 million with potential for ongoing feed beyond the initial 16,000 tonne parcel.

Other continuing projects include Tin Hydrate recovery from BHP tin residue and Iron/Fluoride Immobilisation from the same source.

Future project development for Unanderra includes the evaluation of a steel mill dust containing zinc among other contaminants. Our objective is the recovery of the zinc for on processing to Zinc Sulphate to further exploit the strong market support which we developed during the previous dam fume project. We expect plant trial evaluation to be completed by mid March.

Tomago (Newcastle NSW)

Newcastle operation experienced a revenue decrease compared to 1999 due to a change in product and services provided by the facility.

Zinc Sulphate solution was produced at Newcastle to meet the annual seasonal demand May to August 2000.

Promotion of the Falconbridge Precious Metals Recovery Project involving the importation of a precious metals smelter residue continued with final NSW EPA and Commonwealth EPA approval to carry out the process, received in January 2001. The process involves the use of technology developed by HydroMet to separate the precious metal content and then to value add the selenium content of the remaining residue to produce a product for export and sale. The project represents a significant breakthrough for HydroMet with no other technology available to treat the waste. With a revenue value of up to $4.5 million and process term of two years the Falconbridge project is an opportunity to acquire similar residue from other sources elsewhere in the world.

Plant investment of up to $250,000 will commence in late February with the first 100 tonne parcel due to arrive in Australia in mid March with plant commissioning planned to commence from April 2001.

Hobart (Tasmania)

The Manganese Mud filtration contract continued under the current agreement with the annual contract due for completion at end April 2001. We believe that the contract will be put to tender again in March 2001 and will again offer our services. Our objective will be to seek to secure a longer term contract of 2 to 3 years.

Further project options for the plant at Risdon continue to be explored with particular attention to recovery opportunities within the Pasminco facility being evaluated. Other options are being considered for utilisation of the specialised equipment at our plant.

Dated at Wollongong this 12th day of March 2001.

Signed in accordance with a resolution of the directors:

G.W. Wrightson
Managing Director

HYDROMET CORPORATION LIMITED
and its controlled entities
Half-Year Financial Report 31 December 2000

PROFIT AND LOSS STATEMENT
for the half-year ended 31 December 2000

	Note	Consolidated 2000 $	1999 $
Sales revenue		2,236,690	2,580,516
Other revenue		170,073	312,273
Total operating revenue	2	**2,406,763**	**2,892,789**
Operating loss before abnormal items and income tax	3	**(1,150,624)**	**(455,969)**
Abnormal items	4	534,343	-
Operating loss before income tax		**(616,281)**	**(455,969)**
Income tax attributable to operating loss	11	-	-
Operating loss after income tax		**(616,281)**	**(455,969)**
Net loss attributed to members of the company		**(616,281)**	**(455,969)**
Accumulated losses at beginning of the half-year		(49,542,848)	(47,248,009)
Accumulated losses at the end of the half-year		**(50,159,129)**	**(47,703,978)**

The profit and loss statement is to be read in conjunction with the notes to the half-year financial statements set out on pages 7 to 10.

BALANCE SHEET
as at 31 December 2000

		Consolidated		
	Note	31/12/00 $	30/6/00 $	31/12/99 $
CURRENT ASSETS				
Cash		2,464,678	1,917,018	2,457,692
Receivables		746,562	1,088,956	696,941
Inventories		249,277	210,405	203,438
Total current assets		**3,460,517**	**3,216,379**	**3,358,071**
NON-CURRENT ASSETS				
Receivables		-	-	-
Investments	7	289,076	-	-
Property, plant and equipment		7,395,734	7,350,783	7,670,705
Intangibles		1,519,644	1,641,215	1,799,930
Total non-current assets		**9,204,454**	**8,991,999**	**9,470,635**
TOTAL ASSETS		**12,664,971**	**12,208,378**	**12,828,706**
CURRENT LIABILITIES				
Accounts payable		757,390	1,098,248	1,067,972
Borrowings		27,812	31,283	55,151
Provisions		1,891,308	1,864,782	1,465,807
Total current liabilities		**2,676,510**	**2,994,313**	**2,588,930**
NON-CURRENT LIABILITIES				
Borrowings		19,749	26,320	14,102
Provisions		633,550	625,202	618,254
Total non-current liabilities		**653,299**	**651,522**	**632,356**
TOTAL LIABILITIES		**3,329,809**	**3,645,835**	**3,221,286**
NET ASSETS		**9,335,162**	**8,562,543**	**9,607,420**
SHAREHOLDERS' EQUITY				
Share Capital	8	58,988,603	57,599,703	56,805,711
Reserves		505,688	505,688	505,687
Accumulated losses		(50,159,129)	(49,542,848)	(47,703,978)
TOTAL SHAREHOLDERS' EQUITY		**9,335,162**	**8,562,543**	**9,607,420**

The balance sheet is to be read in conjunction with the notes to the half-year financial statements set out on pages 7 to 10.

STATEMENT OF CASH FLOWS
for the half-year ended 31 December 2000

	Note	Consolidated 2000 $	1999 $
Cash flows from operating activities			
Cash receipts in the course of operations		2,599,556	3,014,691
Cash payments in the course of operations		(3,297,005)	(3,031,099)
Interest received		56,257	52,459
Interest paid		(2,732)	(4,344)
Net cash provided by/(used in) operating activities		**(643,924)**	**31,707**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		85,227	33,000
Proceeds from sale of investments		245,268	-
Payments for property, plant and equipment		(514,871)	(133,463)
Net cash (used in) investing activities		**(184,376)**	**(100,463)**
Cash flows from financing activities			
Lease payments		(12,940)	(18,073)
Proceeds from share placement		1,388,900	-
Net cash provided by/(used in) financing activities		**1,375,960**	**(18,073)**
Net increase/(decrease) in cash held		**547,660**	**(86,829)**
Cash at the beginning of the financial period		**1,917,018**	**2,544,521**
Cash at the end of the financial period	10	**2,464,678**	**2,457,692**

The statement of cash flows is to be read in conjunction with the notes to the half-year financial statements set our on pages 7 to 10.

NOTES TO THE FINANCIAL STATEMENTS
for the half-year ended 31 December 2000

1. BASIS OF PREPARATION OF HALF-YEAR FINANCIAL REPORT

The half-year consolidated financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Law, Accounting Standard 1029 “Half-Year Accounts and Consolidated Accounts” and Urgent Issues Group consensus views. It is recommended that this half-year financial report be read in conjunction with the 30 June 2000 Annual Financial Report and any public announcements by HydroMet Corporation Limited and its Controlled Entities during the half-year in accordance with continuous disclosure obligations arising under the Corporations Law.

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

These accounting policies have been consistently applied by each entity in the economic entity and are consistent with those of the previous year.

The carrying amounts of non-current assets are reviewed to determine whether they are in excess of their recoverable amount at the end of the half-year. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. In assessing recoverable amounts the relevant cash flows have not been discounted to their present value.

	Consolidated	
	2000	1999
	$	$
2. TOTAL OPERATING REVENUE		
Sales revenue		
- Sale of goods	732,825	1,542,326
- Treatment charges	1,345,244	1,022,316
- Freight income	38,423	15,792
- Other revenue	120,198	82
	2,236,690	2,580,516
Other operating revenue		
- Interest received	56,257	52,459
- Research & development grant	22,430	149,128
- Rental income	4,089	-
- Proceeds from sale of non-current assets	85,227	33,000
- Freight subsidy	-	7,587
- Diesel rebate	2,070	61,722
- Others	-	8,377
	2,406,763	2,892,789

	Consolidated	
	2000	**1999**
	$	**$**

3. OPERATING LOSS BEFORE ABNORMAL ITEMS AND INCOME TAX

Operating loss before abnormal items and income tax has been arrived at after including:

Interest revenue	56,257	52,459
Interest expense (including lease finance charges)	5,629	7,889
Depreciation and amortisation (excluding amortisation of intangibles)	447,730	314,199
Amortisation of intangibles	121,571	78,715
Foreign Currency Loss	8,117	-

4. ABNORMAL ITEMS

Proceeds from sale of equity investments	245,268	-
Income tax effect	-	-
	245,268	-
Write-back on provision for diminution of investments	289,075	-
Income tax effect	-	-
	289,075	-
Aggregate abnormal items before income tax	534,343	-

The above are abnormal items included in operating profit before income tax.

5. DIVIDEND

a. Dividends Paid or Proposed

Dividend provided for or paid by the Company	-	-

b. Dividend Franking Account

Balance of franking credit account franked to 34% (1999: 36%)	6,808,583	6,235,470

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

6. EARNINGS PER SHARE

Basic losses per share (cents per share)	(0.379)	(0.352)

Basic and diluted losses per share were not materially different at the end of the financial period.

7. INVESTMENTS IN ASSOCIATES

Interest is held in the following associated company:

Name	Principal Activities	Balance Date	Ownership Interest 2000 %	Ownership Interest 1999 %	Investment Carrying Amount At Valuation 2000 $	Investment Carrying Amount At Valuation 1999 $
HydroMet (India) Limited	Chemical manufacturer	31 March	50	50	-	-

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 (1999: $194,510). A doubtful debt provision relating to the loan amounts to $194,510 (1999: $194,510). No interest (1999: Nil) has been brought to account in relation to this loan during the financial period.

8. SHARE CAPITAL

	31/12/00 $	30/6/00 $	31/12/99 $
Issued and paid-up capital 183,015,218 (June 2000 149,015,218; 1999 129,578,451) ordinary shares, fully paid	58,988,603	57,599,703	56,805,711

On 19 October 2000 HydroMet Corporation Limited made a share placement of 34,000,000 ordinary shares issued at a price of 4.3 cents per share. Transaction costs of $73,100 were recognised as a reduction of the proceeds of issue.

9. STATEMENT OF OPERATIONS BY SEGMENTS

The economic entity operates predominantly in Australia, producing value-added chemical products from industrial residues and providing hydrometallurgical processing technology to the industrial recycling industry.

10. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of cash

For the purposes of the statement 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 period as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

	Consolidated	
	2000 $	1999 $
Cash	477,678	517,692
Short term deposits	1,987,000	1,940,000
Total cash held	2,464,678	2,457,692

11. INCOME TAX

The income tax expense, of nil, differs to the prima facie income tax expense because the future income tax benefit relating to tax losses and timing differences has not been recognised. The future income tax benefit arising from tax losses and timing differences has not been recognised as an asset because recovery of tax losses is not virtually certain and recovery of timing differences is not assured beyond any reasonable doubt.

DIRECTORS' DECLARATION

In the opinion of the directors of HydroMet Corporation Limited:

1. the financial statements and notes set out on pages 4 to 10, are in accordance with the Corporations Law, including:

    (a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2000 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and

    (b) complying with Accounting Standard AASB 1029 "Half-Year Accounts and Consolidated Accounts" and the Corporations Regulations; and

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

Dated at Wollongong this 12th day of March 2001.

Signed in accordance with a resolution of the directors:

G.W. Wrightson
Managing Director

INDEPENDENT REVIEW REPORT
TO THE MEMBERS OF HYDROMET CORPORATION LIMITED

Scope

We have reviewed the financial report of HydroMet Corporation Limited for the half-year ended 31 December 2000, consisting of the profit and loss statement, balance sheet, statement of cash flows, accompanying notes 1 to 11 and the directors' declaration set out on pages 4 to11. The financial report includes the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year. The company's directors are responsible for the financial report.

We have performed an independent review of the financial report in order to state whether, on the basis of procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029 "Half-year Accounts and Consolidated Accounts" and other mandatory professional reporting requirements and statutory requirements in Australia so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the company to lodge the financial report with the Australian Securities and Investments Commission.

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

Statement

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

(a) the Corporations Law, including:

i. giving a true and fair view of the consolidated entity's financial position as at 31 December 2000 and of its performance for the half-year ended on that date; and

ii. complying with Accounting Standard AASB 1029 "Half-Year Accounts and Consolidated Accounts" and the Corporations Regulations; and

(b) other mandatory professional reporting requirements.

KPMG

Chris Hollis
Partner

Dated at Wollongong this 12th day of March 2001.