
WATER RESOURCES GROUP LIMITED**ABN 11 124 426 339****NOTICE OF ANNUAL GENERAL MEETING**

TIME: 10am (AEST)**DATE:** Thursday 31 July 2014**PLACE:** To be held at the offices of the Company
Level 3, 2-4 Ross Place
South Melbourne, Victoria, 3205

This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.

Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on (+61 3) 9673 9673.

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IMPORTANT INFORMATION

TIME AND PLACE OF MEETING

Notice is given that the meeting of the Shareholders to which this Notice of Meeting relates will be held at 10am AEST on 31 July 2014 at:

The offices of:

Water Resources Group
Level 3, 2-4 Ross Place
South Melbourne, Victoria, 3205.

YOUR VOTE IS IMPORTANT

The business of the Meeting affects your shareholding and your vote is important.

VOTING ELIGIBILITY

The Directors have determined pursuant to Regulation 7.11.37 of the *Corporations Regulations 2001* (Cth) that the persons eligible to vote at the Meeting are those who are registered Shareholders at 5pm (AEST) on 29 July 2014.

VOTING IN PERSON

To vote in person, attend the Meeting at the time, date and place set out above.

VOTING BY PROXY

To vote by proxy, please complete and sign the enclosed Proxy Form and return by the time and in accordance with the instructions set out on the Proxy Form.

In accordance with section 249L of the Corporations Act, members are advised that:

- each member has a right to appoint a proxy;
- the proxy need not be a member of the Company; and
- a member who is entitled to cast 2 or more votes may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If the member appoints 2 proxies and the appointment does not specify the proportion or number of the member's votes, then in accordance with section 249X(3) of the Corporations Act, each proxy may exercise one-half of the votes.

Sections 250BB and 250BC of the Corporations Act came into effect on 1 August 2011 and apply to voting by proxy on or after that date. Shareholders and their proxies should be aware of these changes to the Corporations Act, as they will apply to this Meeting. Broadly, the changes mean that:

- if proxy holders vote, they must cast all directed proxies as directed; and
- any directed proxies which are not voted will automatically default to the Chair, who must vote the proxies as directed.

Further details on these changes are set out below.

Proxy vote if appointment specifies way to vote

Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, **if it does**:

- the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (i.e. as directed); and
- if the proxy has 2 or more appointments that specify different ways to vote on the resolution – the proxy must not vote on a show of hands; and
- if the proxy is the chair of the meeting at which the resolution is voted on – the proxy must vote on a poll, and must vote that way (i.e. as directed); and
- if the proxy is not the chair – the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (i.e. as directed).

Transfer of non-chair proxy to chair in certain circumstances

Section 250BC of the Corporations Act provides that, if:

- an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members; and
- the appointed proxy is not the chair of the meeting; and
- at the meeting, a poll is duly demanded on the resolution; and
- either of the following applies:
 - the proxy is not recorded as attending the meeting;
 - the proxy does not vote on the resolution,

the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

BUSINESS OF THE MEETING

AGENDA

1. ANNUAL ACCOUNTS AND REPORT

To receive and consider the Annual Financial Report of the Company to the year ending 31 December 2013, consisting of the Annual Financial Report, the Director's Report and the Auditor's Report.

2. RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT

To consider and, if thought fit, to pass, with or without amendment, the following resolution as a **non-binding resolution**:

"That for the purposes of section 250R(2) of the Corporations Act, and for all other purposes, approval is given for the Remuneration Report forming part of the Company's 2013 Annual Report, to be adopted."

Note: the vote on this Resolution is advisory only and does not bind the Directors or the Company.

Voting Prohibition Statement:

A vote on this Resolution must not be cast (in any capacity) by or on behalf of either of the following persons:

- (a) a member of the Key Management Personnel, details of whose remuneration are included in the Remuneration Report; or
- (b) a Closely Related Party of such a member.

However, a person (the **voter**) described above may cast a vote on this Resolution as a proxy if the vote is not cast on behalf of a person described above and either:

- (c) the voter is appointed as a proxy by writing that specifies the way the proxy is to vote on this Resolution; or
- (d) the voter is the Chair and the appointment of the Chair as proxy:
 - (i) does not specify the way the proxy is to vote on this Resolution; and
 - (ii) expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel.

3. RESOLUTION 2 – ELECTION OF MR SIMON LILL AS A DIRECTOR

To consider, and if thought fit, to pass, with or without amendment the following resolution as an **ordinary resolution**:

"That, pursuant to rule 6.1(d) of the Company's Constitution and for all other purposes, Mr. Simon Lill, who was appointed by the Board since the last Annual General Meeting and retires in accordance with the Company's Constitution, and being eligible, offers himself for election, be elected as a Director of the Company"

4. RESOLUTION 3 – ELECTION OF MR STEVEN MORRIS AS A DIRECTOR

To consider, and if thought fit, to pass, with or without amendment the following resolution as an **ordinary resolution**:

“That, pursuant to rule 6.1(d) of the Company’s Constitution and for all other purposes, Mr. Steven Morris, who was appointed by the Board since the last Annual General Meeting and retires in accordance with the Company’s Constitution, and being eligible, offers himself for election, be elected as a Director of the Company”

5. RESOLUTION 4 – RE-ELECTION OF DIRECTOR – MR ROBERT BYLIN

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, for the purpose of clause 6.1(f) of the Constitution, ASX Listing Rule 14.4 and for all other purposes, Mr Robert Bylin, a Director, retires by rotation, and being eligible, is re-elected as a Director.”

6. RESOLUTION 5 – APPROVAL OF ISSUE OF SHARES TO DILATO HOLDINGS – 2011 WORKING CAPITAL FACILITY

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, subject to the passing of Resolutions 5 to 13, for the purposes of ASX Listing Rule 10.11, Chapter 2E of the Corporations Act, Section 611 (Item 7) of the Corporations Act and for all other purposes, approval is hereby given for the Directors to issue 500,000,000 Shares to Dilato Holdings (or their nominees) in lieu of outstanding funds due and payable to Dilato Holdings for the 2011 Working Capital facility and on the terms and conditions set out in the Explanatory Statement.”

Independent Expert’s Report: Shareholders should carefully consider the Independent Expert’s Report prepared by DMR Corporate Pty Ltd for the purposes of the Shareholder approval required under section 611 (Item 7) of the Corporations Act. The Independent Expert’s Report comments on the fairness and reasonableness of the transaction to the non-associated Shareholders in the Company and concludes that it is **fair and reasonable to the non-associated shareholders**.

Voting Exclusion Statement: The Company will disregard any votes cast on this Resolution by Dilato Holdings (and its nominees) and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

7. RESOLUTION 6 – APPROVAL OF ISSUE OF SHARES TO DILATO HOLDINGS – 2013 WORKING CAPITAL FACILITY

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That subject to the passing of Resolutions 5 to 13, for the purposes of ASX Listing Rule 10.11, Chapter 2E of the Corporations Act, Section 611 (Item 7) of the Corporations Act and for all other purposes, approval is hereby given for the Directors to issue up to 1,000,000,000 Shares to Dilato Holdings

(or their nominees) in lieu of outstanding funds due and payable to Dilato Holdings for the 2013 Working Capital facility and on the terms and conditions set out in the Explanatory Statement."

Independent Expert's Report: Shareholders should carefully consider the Independent Expert's Report prepared by DMR Corporate Pty Ltd for the purposes of the Shareholder approval required under section 611 (Item 7) of the Corporations Act. The Independent Expert's Report comments on the fairness and reasonableness of the transaction to the non-associated Shareholders in the Company and concludes that it is **fair and reasonable to the non-associated shareholders**.

Voting Exclusion Statement: The Company will disregard any votes cast on this Resolution by Dilato Holdings (and its nominees) and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

8. RESOLUTION 7 – APPROVAL OF ISSUE OF SHARES TO DILATO HOLDINGS – SERIES H CONVERTIBLE NOTES

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That subject to the passing of Resolutions 5 to 13, for the purposes of ASX Listing Rule 10.11, Chapter 2E of the Corporations Act, Section 611 (Item 7) of the Corporations Act and for all other purposes, approval is hereby given for the Directors to issue 1,814,210,000 Shares to Dilato Holdings (or their nominees) in lieu of outstanding funds due and payable to Dilato Holdings for the Series H Convertible Note facility and on the terms and conditions set out in the Explanatory Statement."

Independent Expert's Report: Shareholders should carefully consider the Independent Expert's Report prepared by DMR Corporate Pty Ltd for the purposes of the Shareholder approval required under section 611 (Item 7) of the Corporations Act. The Independent Expert's Report comments on the fairness and reasonableness of the transaction to the non-associated Shareholders in the Company and concludes that it is **fair and reasonable to the non-associated shareholders**.

Voting Exclusion Statement: The Company will disregard any votes cast on this Resolution by Dilato Holdings (and its nominees) and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

9. RESOLUTION 8 – APPROVAL TO ISSUE SERIES I CONVERTIBLE NOTES TO DILATO HOLDINGS

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That subject to the passing of Resolutions 5 to 13, for the purposes of ASX Listing Rule 10.11, Chapter 2E of the Corporations Act, Section 611 (Item 7) of the Corporations Act and for all other purposes, approval is hereby given for the Directors to issue \$500,000 of Series I Convertible Notes and to issue 500,000,000 Shares on the conversion of the Series I Convertible Notes to Dilato Holdings (or their nominees) on the terms and conditions set out in the Explanatory Statement."

Independent Expert's Report: Shareholders should carefully consider the Independent Expert's Report prepared by DMR Corporate Pty Ltd for the purposes of the Shareholder approval required under section 611 (Item 7) of the Corporations Act. The Independent Expert's Report comments on the fairness and reasonableness of the transaction to the non-associated Shareholders in the Company and concludes that it is **fair and reasonable to the non-associated shareholders**.

Voting Exclusion Statement: The Company will disregard any votes cast on this Resolution by Dilato Holdings (and its nominees) and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

10. RESOLUTION 9 – APPROVAL TO ISSUE SERIES J CONVERTIBLE NOTES TO DILATO HOLDINGS

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That subject to the passing of Resolutions 5 to 13, for the purposes of ASX Listing Rule 10.11, Chapter 2E of the Corporations Act, Section 611 (Item 7) of the Corporations Act and for all other purposes, approval is hereby given for the Directors to issue \$1,500,000 of Series J Convertible Notes and to issue 600,000,000 Shares on the conversion of the Series J Convertible Notes to Dilato Holdings (or their nominees) on the terms and conditions set out in the Explanatory Statement.”

Independent Expert's Report: Shareholders should carefully consider the Independent Expert's Report prepared by DMR Corporate Pty Ltd for the purposes of the Shareholder approval required under section 611 (Item 7) of the Corporations Act. The Independent Expert's Report comments on the fairness and reasonableness of the transaction to the non-associated Shareholders in the Company and concludes that it is **fair and reasonable to the non-associated shareholders**.

Voting Exclusion Statement: The Company will disregard any votes cast on this Resolution by Dilato Holdings (and its nominees) and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

11. RESOLUTION 10 – APPROVAL OF ISSUE OF SHARES TO MR DOMINIC REDFERN IN LIEU OF DIRECTOR FEES

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, subject to the passing of Resolutions 5 to 13, for the purposes of ASX Listing Rule 10.11 and for all other purposes, approval is hereby given for the Directors to issue 32,500,000 Shares to Mr. Dominic Redfern or his nominees in lieu of director's fees payable to Mr. Dominic Redfern on the terms and conditions set out in the Explanatory Statement.”

Voting Exclusion Statement: The Company will disregard any votes cast on this Resolution by Mr. Dominic Redfern (or his nominees) and any of his associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Voting Prohibition Statement:

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
 - (i) a member of the Key Management Personnel; or
 - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (a) the proxy is the Chair; and
- (b) the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

12. RESOLUTION 11 – APPROVAL OF ISSUE OF SHARES TO MR BOB BYLIN IN LIEU OF DIRECTOR FEES

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, subject to the passing of Resolutions 5 to 13, for the purposes of ASX Listing Rule 10.11 and for all other purposes, approval is hereby given for the Directors to issue 32,500,000 Shares to Mr. Bob Bylin or his nominees in lieu of director’s fees payable to Mr. Bob Bylin on the terms and conditions set out in the Explanatory Statement.”

Voting Exclusion Statement: The Company will disregard any votes cast on this Resolution by Mr. Bob Bylin (or his nominees) and any of his associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Voting Prohibition Statement:

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (c) the proxy is either:
 - (iii) a member of the Key Management Personnel; or
 - (iv) a Closely Related Party of such a member; and
- (d) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (c) the proxy is the Chair; and

- (d) the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

13. RESOLUTION 12 – APPROVAL OF ISSUE OF SHARES TO MR BOB BYLIN IN RESPECT OF OUTSTANDING FUNDS OWED

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, subject to the passing of Resolutions 5 to 13, for the purposes of ASX Listing Rule 10.11, Chapter 2E of the Corporations Act and for all other purposes, approval is hereby given for the Directors to issue 214,000,000 Shares to Mr. Bob Bylin or his nominees in lieu of outstanding funds payable to Mr. Bob Bylin on the terms and conditions set out in the Explanatory Statement.”

Voting Exclusion Statement: The Company will disregard any votes cast on this Resolution by Mr. Bob Bylin (or his nominees) and any of his associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

14. RESOLUTION 13 – APPROVAL OF ISSUE OF SHARES TO OUTSTANDING CREDITORS

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, subject to the passing of Resolutions 5 to 13, and for the purposes of ASX Listing Rule 7.1, and for all other purposes, approval is hereby given for the Directors to issue 150,045,000 Shares to outstanding creditors in the names, the amounts and on the terms and conditions set out in the Explanatory Statement.”

Voting Exclusion Statement: The Company will disregard any votes cast on this Resolution by any of the outstanding creditors identified in the Explanatory Statement and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

15. RESOLUTION 14 – APPROVAL OF 10% PLACEMENT CAPACITY

To consider and, if thought fit, to pass the following resolution as a **special resolution**:

“That, for the purposes of Listing Rule 7.1A and for all other purposes, approval is given for the issue of Equity Securities totalling up to 10% of the issued capital of the Company at the time of issue, calculated in accordance with the formula prescribed in Listing Rule 7.1A.2 and on the terms and conditions set out in the Explanatory Statement.”

Voting Exclusion: The Company will disregard any votes cast on this Resolution by any person who may participate in the issue of Equity Securities under this Resolution and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any associates of those persons. However, the Company will not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it

is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

DATED: 24 JUNE 2014

BY ORDER OF THE BOARD

**STEVE MORRIS
CHAIRMAN
WATER RESOURCES GROUP LIMITED**

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions which are the subject of the business of the Meeting.

In considering the resolutions, Shareholders must bear in mind the current financial circumstances of the Company.

Resolutions 5 to 13 are conditional upon each being passed. If all are passed and the refinancing proposal is completed, the Company will be in a position where it has ongoing financing facilities in the nature of Convertible Notes which are able to be converted to equity, will have removed substantial liabilities from its balance sheet through conversion of debt to equity and will be in a position to recommence implementation of its plans to commercialise the water desalination technology on which it is working.

1. FINANCIAL STATEMENTS AND REPORTS

In accordance with the Constitution, the business of the Meeting will include receipt and consideration of the annual financial report of the Company for the financial year ended 31 December 2013 together with the declaration of the directors, the directors' report, the Remuneration Report and the auditor's report.

The Company will not provide a hard copy of the Company's annual financial report to Shareholders unless specifically requested to do so. The Company's annual financial report is available on its website at:

www.waterresourcesgroup.com.

2. RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT

2.1 General

As required by the Corporations Act, the Board is presenting the Remuneration Report to Shareholders for consideration and adoption by a non – binding vote. This Resolution is advisory only and does not bind the Directors or the Company. The Remuneration Report contains:

- (a) information about the Board's policy for determining the nature and amount of remuneration of the Directors and senior executives of the Company;
- (b) a description of the relationship between the Company's remuneration policy and the Company's performance;
- (c) a summary of performance conditions for each of the Directors and senior executives, including a summary of why they were chosen and how performance is measured against them; and
- (d) remuneration details for each Director and for each of the Company's specified executives.

The Chairman will allow a reasonable opportunity for Shareholders as a whole to ask about, or make comments on the Remuneration Report. The Chairman intends to exercise all undirected proxies in favour of Resolution 1. If the

Chairman of the Meeting is appointed as your proxy and you have not specified the way the Chairman is to vote on Resolution 1, by signing and returning the Proxy Form, you are considered to have provided the Chairman with an express authorisation for the Chairman to vote the proxy in accordance with the Chairman's intention.

The Remuneration Report, which is part of the 2013 Annual Report, has been sent to Shareholders who have made an election to receive the Annual Report. Copies of the 2013 Annual Report are available by contacting the Company's registered office or visiting the Company's website:

www.waterresourcesgroup.com.

2.2 Voting Consequences

The results of the Shareholder vote on Resolution 1 are particularly relevant for the Company's next AGM following recent amendments to the Corporations Act, which took effect on 1 July 2011. If 25% or more of the votes cast on Resolution 1 are against the adoption of the Remuneration Report, then at the Company's subsequent AGM if 25% or more of the votes cast on the Remuneration Report are against its adoption, a resolution must be put to Shareholders at that AGM as to whether another meeting should be held within 90 days at which all Directors (other than the Managing Director) who were in office at the date of approval of the relevant Remuneration Report must stand for re-election.

In summary, if the Remuneration Report receives a 'no' vote of 25% or more at this Meeting, Shareholders should be aware that if there is a 'no' vote of 25% or more at the next annual general meeting the consequences are that all Directors (other than the Managing Director) may be up for re-election.

2.3 Previous voting results

At the Company's 2012 Annual General Meeting the remuneration report was approved by over 75% of shareholders.

2.4 Voting Prohibition – Remuneration Report

Shareholders appointing a proxy for this Resolution should note the following:

If you appoint a member of the Key Management Personnel (other than the Chair) whose remuneration details are included in the Remuneration Report, or a Closely Related Party of such a member as your proxy

You must direct your proxy how to vote on this Resolution. Undirected proxies granted to these persons will not be voted and will not be counted in calculating the required majority if a poll is called on this Resolution.

If you appoint the Chair as your proxy (where he/she is also a member of the Key Management Personnel whose remuneration details are included in the Remuneration Report, or a Closely Related Party of such a member).

You ***do not*** need to direct your proxy how to vote on this Resolution. However, if you do not direct the Chair how to vote, ***you must mark the acknowledgement on the Proxy Form to expressly authorise the Chair to exercise his/her discretion in exercising your proxy even though this Resolution is connected directly or indirectly with the remuneration of Key Management Personnel.***

If you appoint any other person as your proxy

You **do not** need to direct your proxy how to vote on this Resolution, and you **do not** need to mark any further acknowledgement on the Proxy Form.

3. RESOLUTION 2 – ELECTION OF SIMON LILL AS A DIRECTOR

3.1 General

Mr Simon Lill was appointed as a non-executive director of the Company on 2 September 2013. Pursuant to Rule 6.1(d) of the Company's Constitution, any director appointed to the Board since the last annual general meeting, must retire from office at the next annual general meeting and is then eligible for election at that meeting. Mr. Lill, being eligible, offers himself for election as director of the Company.

Resolution 2 is an ordinary resolution, requiring it to be passed by a simple majority of votes cast by the Shareholders entitled to vote on it.

3.2 Director's Biography

Mr Lill has a BSc and a Masters of Business Administration, both from The University of Western Australia. He has a background of over 30 years of stockbroking, capital raising, management, business development and analysis for a range of small and start-up companies, both in the manufacturing and resources industries. In recent times he has specialised in turn-around situations, working to assist companies return to ASX trading from having being placed in Administration.

3.3 Director's Recommendation

All the Directors except Mr. Simon Lill who has an interest in this Resolution recommend that Shareholders vote in favour of Resolution 2.

4. RESOLUTION 3 – ELECTION OF STEVEN MORRIS AS A DIRECTOR

4.1 General

Mr Steve Morris was appointed as a non-executive director of the Company on 2 September 2013. Pursuant to Rule 6.1(d) of the Company's Constitution, any director appointed to the Board since the last annual general meeting, must retire from office at the next annual general meeting and is then eligible for election at that meeting. Mr. Morris, being eligible, offers himself for election as director of the Company.

Mr. Morris has also been appointed by the Board to Chair the Company.

Resolution 3 is an ordinary resolution, requiring it to be passed by a simple majority of votes cast by the Shareholders entitled to vote on it.

4.2 Director's Biography

Mr. Morris has over 20 years of experience at the most senior executive level in a range of industries including the last 15 in Financial Markets. During that time he has held positions such as Head of Private Clients Australia for Patersons Securities Ltd and the Managing Director of Intersuisse Ltd. Currently he is Managing Director of Peloton Shareholder Services, offering management of

shareholder based capital raising and investor relations advice to many ASX listed companies.

4.3 Director's Recommendation

All the Directors except Mr. Steve Morris who has an interest in this Resolution recommend that Shareholders vote in favour of Resolution 3.

5. RESOLUTION 4 – RE-ELECTION OF DIRECTOR – MR ROBERT BYLIN

ASX Listing Rule 14.4 provides that a director of an entity must not hold office (without re-election) past the third AGM following the director's appointment or 3 year, whichever is the longer.

Clause 6.1 (f) of the Constitution provides that:

- (a) at the Company's annual general meeting in every year, one-third of the Directors for the time being, or, if their number is not a multiple of 3, then the number nearest one-third (rounded down in case of doubt), shall retire from office, provided always that no Director (except a Managing Director) shall hold office for a period in excess of 3 years, or until the third annual general meeting following his or her appointment, whichever is the longer, without submitting himself or herself for re-election;
- (b) the Directors to retire at an annual general meeting are those who have been longest in office since their last election, but, as between persons who became Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by drawing lots;
- (c) a Director who retires by rotation under clause 6.1 (f) of the Constitution is eligible for re-election; and
- (d) in determining the number of Directors to retire, no account is to be taken of:
 - (i) a Director who only holds office until the next annual general meeting pursuant to clause 6.1 (d) of the Constitution; and/ or
 - (ii) a Managing Director,

each of whom are exempt from retirement by rotation. However, if more than one Managing Director has been appointed by the Directors, only one of them (nominated by the Directors) is entitled to be excluded from any determination of the number of Directors to retire and/or retirement by rotation.

The Company currently has four Directors and accordingly one must retire.

Mr Robert Bylin, the Director longest in office since his last election, retires by rotation and seeks re-election.

All the Directors except Mr Robert Bylin who has an interest in this Resolution recommend that Shareholders vote in favour of Resolution 4.

6. OVERVIEW OF WATER RESOURCES GROUP LIMITED

6.1 Overview

Water Resources Group Limited (**WRG** or **Company**) has been a water company focused on establishing a new system of delivery of safe, secure and potable water supplies to communities. The key components of this water supply have been the rights to a specific ozone generation technology and associated intellectual property developed for water treatment technologies downstream from the ozone generation technology.

The Company listed on the ASX on 30 December 2010 having raised \$15 million through its initial public offering.

Since that time the Company has announced losses totalling \$45,000,000 as detailed below:

Year Ended Dec 31	Financial Loss
2010	\$26,427,327
2011	\$5,143,020
2012	\$4,135,039
2013	\$3,934,739
Total	\$39,640,725

Table One – Annual audited losses for Water Resources Group.

The principal activities in recent times have been:

- (a) analysis of the technical and economic viability of the ASWRO technology;
- (b) consideration of other technology solutions utilising the Company's knowledge of the various components of the ASWRO technology;
- (c) restructuring of the Company's management structure to assist fund raising initiatives moving forward; and
- (d) commencing work with a new technical services provider, Somnio Global LLC of Detroit Michigan, USA (**Somnio**), in the expectation of a fully elaborated technical assistance agreement with that company.

These activities in part resulted in a write off of all of the Company's intellectual property and intangible assets to zero as at 31 December 2013, and a balance sheet as at 31 December 2013 showing a deficiency of assets over liabilities to the extent of \$5,297,254.

The Company is only able to continue trading through the financial support of Dilato Holdings. Approval for the ongoing support of Dilato Holdings is a key purpose of this Notice of Meeting, as encompassed in Resolutions 5 to 9.

6.2 Current Directors

The Board currently comprises the following Directors:

Mr Steve Morris – Chairman
Mr Simon Lill – Non-Executive Director

Mr Bob Bylin – Non-Executive Director
Mr Dominic Redfern – Non-Executive Director

6.3 Proforma Balance Sheet as at 31 December 2013

In order to provide a more representative financial position, the Company has restated its balance sheet as at 31 December 2013 on a pro-forma basis that represents the material changes that will be the outcome of shareholder approval for the proposed resolutions. The pro-forma balance sheet is provided in Section 8.3 of the Expert's Report.

6.4 Overview of Dilato Holdings

Dilato Holdings is an Australian based private investment company that has supported the Company through equity and debt since its initial public offer in 2010. Dilato Holdings has been the major provider of funding to the Company since mid-2013. Mr Carl Le Souef is the sole director of Dilato Holdings and responsible for the controlling shareholding, ultimately held through a family trust.

The Directors of the Company have satisfied themselves as to Dilato Holdings' ability to provide ongoing funding as being sought through resolutions 8 and 9.

6.5 Intentions of Dilato Holdings

Whilst there is no agreement between Dilato Holdings and the Company to seek Board changes, if shareholders approve all resolutions Dilato Holdings will be in a position to control the Board and the direction of the Company through its shareholding following approval of all resolutions.

The Board continues to consider means of reducing the Company's cash outflows. Board fees have been significantly reduced from previous years, whilst it is possible that the Board will further reduce in size to three.

Dilato Holdings has not indicated any intention to change the direction of the Company and wishes it to continue to focus on the development of water purification and desalination technologies.

In addition, the Company has recently signed a technical services agreement with Somnio (**Somnio Agreement**). This has arisen through the introduction by Dilato Holdings to Somnio, which is associated with Dilato Holdings through common shareholdings.

The Company and Somnio have undertaken a review on the Company's technology and intellectual property. This included a review of the Campbell Applied Physics (**CAP**) research and development demonstration site in El Dorado Hills, California, discussions with key participants at CAP and discussions with the Company's intellectual property attorney in the United States (**US**).

The outcome of that review has resulted in the Company's decision to write off to nil value the asset attributed to the technology and associated know how as at 31 December 2013.

In more detail, the review found that:

- (a) of several patent applications that were lodged by CAP, most had been rejected, with the exception of US Patent # 7767097. This intellectual property will be maintained by the Company, but its future

role and application in the Company's business plan is yet to be determined;

- (b) the key component of the WRG desalination concept was the ozone generation system for seawater pre-treatment. The rest of the components, whilst requiring some design work specific to the WRG system, would effectively be considered "off the shelf";
- (c) the ozone generation system was originally provided to CAP by the US Department of Energy which required the manufacturing to be done in the USA and by a US entity. The Department of Energy had sourced the technology from Kharkov Institute of Physics and Technology (**KIPT**) in the Ukraine. The transfer of such rights as held by CAP to the Company directly would have nullified the agreement with the Department of Energy and, as such, the Company requested the transfer of these rights to Somnio, a US controlled company;
- (d) at that time the only know how related to the ozone generation system was through the acquisition of units manufactured in the Ukraine. The development work required to bring these units up to an operable and certified Western standard was incomplete, nor had CAP been able to demonstrate the technical ability to manufacture such units in the US, as required by the Department of Energy; and
- (e) despite Somnio being able to operate the KIPT ozone generation system at its name plate capacity, the system design did not meet the certification requirements of developed countries and was not robust enough to operate in a high capacity commercial operation. Further, there was also no manufacturing know how gained during CAP's tenure.

Somnio has since, at its own cost, commenced work on a new proprietary ozone generation system. It currently has four dedicated scientific and engineering staff working on the project. They have commenced development of a pilot desalination system for test bed work which will be made available to the Company once commissioned.

The Company did not, and still does not, have the capital required to pay for such development. The Company has, however, negotiated exclusive and non-exclusive rights to the new ozone system being developed by Somnio.

Somnio had initially provided the Company with the option of paying for its technical services and thus hold ownership rights to the new technology. However, in considering this outcome, the Board reflected on payments made to CAP in previous years, which are as follows:

2012*	2011	2010	2009	2008
Nil	\$3.68M	\$4.148M	\$5.075M	\$3.638M

Table 2 – Payments made to CAP as presented in the Company's audited accounts.

*Years ending 31 December.

Somnio would have provided a lesser fee for service than those indicated above. However, the Company does not have the resources to continue to pay for a technical services provider and the Company is well protected by the rights to be provided by Somnio. Further, the Company could not accept the ongoing financial and technical risk which will now be borne by Somnio. The Board is pleased with this outcome.

The key commercial terms of the Somnio Agreement are set out below:

- (a) Somnio will, at its own cost and risk, continue to develop a proprietary ozone generation device (**Ozone Generator**);
- (b) Somnio will own all rights, title and interest in the Ozone Generator and will assume the cost of attaining suitable intellectual property protection;
- (c) once the Ozone Generator has completed successful development and verification, the Company will be granted a worldwide exclusive licence to use the new device in water desalination technologies. The exclusive opportunity will include usual commercial parameters including minimum performance hurdles;
- (d) the Company will also be granted world-wide rights on a non-exclusive basis to utilise the Ozone Generator in the fields of brackish, ballast and waste water applications;
- (e) a commercial royalty will be paid to Somnio on both the installed cost of the Ozone Generator and any ongoing revenue stream; and
- (f) Somnio will also construct and operate a water test bed at its premises in Detroit, Michigan. This will be available to the Company for proof of concept on different waters that it may wish to test. The Company will contribute \$200,000 to the construction of that test bed.

The Board, with Dilato Holding's support, intends to continue to work with Somnio on the development of the water desalination technology once a complete solution has been provided to re-commence the commercialisation of the technology. The Board will commence work on a business strategy to commercialisation if shareholders approve the Resolutions contained herein.

6.6 Advantages and Disadvantages of the Conversion and Capital Raising

- (a) **Advantages of Conversion and Capital Raising**
 - (i) **Strengthen the balance sheet:** Strengthening the Company's balance sheet to support ongoing work;
 - (ii) **Improve market confidence in the Company:** Would have flow on benefits to shareholders, and assist the Company's marketing efforts in respect of its desalination technologies;
 - (iii) **Enhanced financial platform to accelerate growth:** Provides increased working capital support allowing the business to commence commercialisation and marketing of its desalination technologies;
 - (iv) **Strategic investor:** The presence of Dilato Holdings and its association with Somnio may provide the Company with new business and commercial opportunities;
 - (v) **Improve the ability of the Company to negotiate alternative banking and equity facilities:** Provides the Company with greater flexibility to negotiate new financing and equity arrangements; and

- (vi) **Relatively low cost of capital:** Providing substantive funding to the Company's business at a price per Share that is unlikely to be achieved through any alternative transaction in the short to medium term.

(b) **Disadvantages of the Conversion and Capital Raising**

- (i) **Dilution:** Your percentage shareholding and voting power in the Company will be diluted as a significant number of new Shares will be issued to Dilato Holdings (and other Creditors);
- (ii) **Discourage potential bidders:** Dilato Holdings will increase its voting power to up to 83.76% on an undiluted basis. This is likely to discourage a potential bidder from proposing a control transaction in relation to the Company;
- (iii) **Significant influence:** Dilato Holdings will be in a position to exercise significant influence on the operations of the Company, including through Board appointments and through utilisation of its shareholding;
- (iv) **Lower liquidity:** There is a risk that the trading of Shares will be negatively affected by the presence of a party with an 83.76% ownership interest. The stock will have a materially lower free float on a proportional basis, which may reduce liquidity and may potentially impair the market value of Shares;
- (v) **Disagree with Directors:** You may not agree with the assessment of the Directors that the Conversion and Capital Raising delivers the best outcome to Shareholders; and
- (vi) **Disagree with Dilato Holding's intentions:** You may not agree with the intentions that Dilato Holdings has with respect to the business.

6.7 Conversion and Capital Raising

The Company will, following all of the Resolutions being passed, convert all debt considered within the resolutions to equity at the prices shown.

The Company will also immediately commence draw down of the new Series I Convertible Notes which are able to be drawn down at a rate of \$50,000 per month.

The Company will make an application to ASX for all securities to be ranked equally with all other existing securities of the Company.

The purpose of the debt to equity conversions and the associated convertible note facilities is to:

- (a) fund the Company's on-going operations;
- (b) provide funds to develop the Company's existing business; and
- (c) provide funds for the acquisition and development of other investments, as identified by the Company.

6.8 Use of Funds – Expenditure Budget

If all resolutions are approved, the Company will have the ability to draw down up to \$1,200,000 through the next 2 years of funds at the rate of \$50,000 per month. An indicative two year expenditure budget for the Company is set out below:

Item	Year 1	Year 2
Starting Cash Balance	600,000¹	\$600,000
Outstanding Creditors	\$150,000	-
Accounting/Audit Fees	\$50,000	\$50,000
Costs of Shareholder Meeting	\$25,000	\$25,000
Legal Fees	\$50,000	\$50,000
ASX/Share Register	\$40,000	\$40,000
Board/Management/Co Sec	\$200,000	\$200,000
Working capital/Project Development	\$85,000	\$235,000
Total Expenditure	\$600,000	\$650,000
Closing Cash Balance	\$0	\$65,487

Table 3 – Proposed use of funds following Convertible Notes I and J drawdown at maximum level allowed of \$50,000 per month.

6.9 Proposed Capital Structure

The following tables set out a summary of the proposed issues of securities:

Shareholdings	Resolution Number	Shares	Convertible Notes	%age of Total Equity	Interests of Dilato Holdings	%age Interest of Dilato Holdings
Existing Shareholders		426,992,733		10.24%		Nil
Conversion of 2011 WRI Working Capital Facility	4	500,000,000		11.99%	500,000,000	11.99%
Conversion of 2013 Working Capital Facility ¹	5	1,000,000,000		23.98%	1,000,000,000	23.98%
Conversion of Series H Convertible Notes	6	1,814,210,000		43.50%	1,814,210,000	43.50%
Issue of Series I Convertible Notes	7		500,000,000			
Issue of Series J Convertible Notes ¹	8		600,000,000			

Shareholdings	Resolution Number	Shares	Convertible Notes	%age of Total Equity	Interests of Dilato Holdings	%age Interest of Dilato Holdings
Conversion of Director Fees	9 & 10	65,000,000		1.56%		Nil
Conversion of Bylin Funds	11	214,000,000		5.13%		Nil
Conversion of Creditors	12	150,045,000		3.60%		Nil
Total		4,170,247,733	1,100,000,000	100%	3,314,210,000	79.47%

Table 4 (a) – Issue of securities if all Resolutions are passed, showing Dilato Holding's interests on an undiluted basis

Shareholdings	Resolution Number	Shares + Converted Notes	%age of Total Equity	Interests of Dilato Holdings	%age Interest of Dilato Holdings
Existing Shareholders		426,992,733	8.10%		
Conversion of 2011 WRI Working Capital Facility	4	500,000,000	9.49%	500,000,000	9.49%
Conversion of 2013 Working Capital Facility ¹	5	1,000,000,000	18.97%	1,000,000,000	18.97%
Conversion of Series H Convertible Notes	6	1,814,210,000	34.42%	1,814,210,000	34.42%
Issue of Series I Convertible Notes ²	7	500,000,000	9.49%	500,000,000	9.49%
Issue of Series J Convertible Notes ³	8	600,000,000	11.38%	600,000,000	11.38%
Conversion of Director Fees	9&10	65,000,000	1.23%		
Conversion of Bylin Funds	11	214,000,000	4.06%		
Conversion of Creditors	12	150,045,000	2.85%		
Total		5,270,247,733	100%	4,414,210,000	83.76%

Table 4 (b) – Issue of securities if all Resolutions are passed, showing Dilato Holding's interests on a diluted basis

Notes for Tables 4 (a) and (b)

1. \$1,000,000 is estimated by management as the likely figure for the 2013 Working Capital facility by the time of the Meeting. If the figure is less, the quantity of Shares to be issued will be less;
2. The Series I Convertible Notes will convert automatically to equity once the series has been drawn down – which at a likely rate of \$50,000 per month will occur in May of 2015.
3. The Series J Convertible Notes are subject to a volume weighted average price (**VWAP**). The conversion shown is at the current VWAP if they were being converted today. However, as draw down will not commence for a further 10

months and due to the 3 year conversion period from the time of their full draw down, it is difficult to assess the VWAP at this point.

6.10 Pro-forma Statement of Financial Position

An audited pro-forma statement of financial position for the Company assuming completion of the restructure proposal is contained in Section 8.3 of the Expert's Report attached to this Notice.

6.11 Indicative Timetable

	Date
Dispatch of Notice of Meeting to Existing Shareholders	1 July 2014
Annual General Meeting of Existing Shareholders	31 July 2014
Issue of all Shares	2 August 2014

6.12 Board of Directors

The Company, through its continuing efforts to reduce costs, may reduce the Board composition to 3 Board members only.

6.13 Financial Liabilities

The key purpose of the Meeting is to approve the conversion of significant debt to equity, thereby reducing the liabilities of the Company and strengthening its balance sheet. There will be a deficiency of assets if all Resolutions are approved, however the Company has reached arrangements with those creditors and has ongoing sources of capital through the provision of the issue of convertible notes to be considered in Resolutions 8 and 9.

7. RESOLUTIONS 5, 6 AND 7 – ISSUE OF SHARES TO DILATO HOLDINGS IN LIEU OF FUNDS OWED

7.1 General

The Company has agreed, subject to obtaining Shareholder approval, to issue to Dilato Holdings:

- (a) 500,000,000 Shares in lieu of outstanding funds due and payable for the 2011 WRI Working Capital Facility;
- (b) up to 1,000,000,000 Shares in lieu of outstanding funds due and payable for the 2013 Working Capital Facility; and
- (c) 1,814,210,000 Shares in lieu of outstanding funds due and payable for the Series H convertible Note Facility,

on the terms and conditions set out below (together the **Dilato Shares**).

Dilato Holdings has provided financing assistance to the Company since late 2012, as below, and now seeks to convert these loan funds to equity in the Company at a price of \$0.001 per share.

A description of the facilities is as follows:

- **2011 WRI Working Capital Facility**

On 23 December 2011 the Company announced that it had entered into a loan agreement with Dilato Holdings for the provision of \$2,000,000 to its wholly owned subsidiary, Water Resources International Limited (**WRI**), of which \$500,000 had been drawn down immediately (**Loan Agreement**). There were no further draw downs of this loan. The term of the loan was 15 months and it was guaranteed by the Company.

The loan had an interest rate of 12% per annum, a facility fee of 10,000,000 options and included rights to royalty streams associated with the Company's marketing and sales of the d'AWSRO system. Terms of the Loan Agreement also included a provision which allowed for an increased drawdown of the facility associated with additional capital raising activities of the Company – which were not achieved. Consequently the loan, by 30 June 2013, had an outstanding balance of \$1,000,000 which was a combination of principal, outstanding interest and penalties.

Dilato Holdings has agreed to waive all interest and penalties in exchange for the issue of \$500,000 worth of equity at a price of \$0.001 per share, being 500,000,000 shares.

- **2013 Working Capital Facility**

Dilato Holdings agreed to continue to fund the Company's day to day activities from June 2013, such that by 31 December 2013 it had contributed \$647,962. Conditions associated with the facility were the right for Dilato Holdings to approve any payments being made from the facility, as well as the assistance from the Company of the acquisition by Dilato Holdings of the Series H Convertible Notes considered below. This working capital facility is forecast to be approximately \$1,000,000 by the time the Company holds its Annual General Meeting on 31 July.

Dilato Holdings has agreed to waive all interest associated with this facility in exchange for the issue of \$1,000,000 worth of equity (or such other figure as is the actual principal loan figure at the date of the Meeting) at a price of \$0.001 per share, being 1,000,000,000 shares.

- **Series H Convertible Notes**

On 14 June 2013, the Company, Dilato Holdings and Deutsche Bank AG (Sydney) entered into an assignment deed whereby the Series H Convertible Notes were transferred to Dilato Holdings for consideration of \$1,000 (**Assignment Deed**). As noted above, and within the Assignment Deed, this was a necessary pre-requisite of the provision of ongoing financial assistance from Dilato Holdings to the Company.

Dilato Holdings has agreed to waive all interest associated with the Series H Convertible Notes since the acquisition of the convertible notes by Dilato Holdings in exchange for the issue of \$2,721,315 worth of equity (or such other figure as is the actual principal loan figure at the date of the Meeting) at a price of \$0.0015 per share, being 1,814,210,000 shares.

7.2 Information Required by Item 7 of Section 611 of the Corporations Act and ASIC Regulatory Guide 74

The following paragraphs set out information required to be provided to shareholders under section 611(7)(b) of the Corporations Act and ASIC Regulatory Guide 74. Where information has already been provided elsewhere in the Explanatory Statement reference will be made to the section where that information was provided.

Shareholders are encouraged to also refer to the Independent Expert's report prepared by DMR Corporate attached at Schedule 1 to this Explanatory Statement.

The identity of persons who will hold a relevant interest in the shares to be issued

The allottee of the shares considered in Resolution 5, 6 and 7 is Dilato Holdings Pty Ltd. More information about Dilato and its intent towards the Company can be found in Section 6.4 and 6.5 of this Explanatory Statement.

Full particulars of the voting power of the allottee and its associates (including maximum extent of the increase) as a result of the debt to equity conversions

As at the date of this Notice, Dilato Holdings and its associates do not have a relevant interest in the Company and their voting power is nil. As shown in Section 6.9 of the Explanatory Statement if all Resolutions are approved by Shareholders, Dilato Holding's voting power will increase to 79.47% on an undiluted basis and 83.76% on a fully diluted basis.

An explanation of the reasons for the proposed conversions

Refer to Section 6.6 of this Explanatory Statement for advantages and disadvantages associated with the Conversion and Capital Raising. However if the debt to equity conversions are not approved by the Shareholders there is little chance that the Company will find funding sources elsewhere and the Company will most likely be placed into Administration.

When the proposed debt to equity conversion is expected to occur

The proposed issues of shares resulting from the conversions indicated in Resolutions 5, 6 and 7 will occur within 5 days of the meeting.

A statement of Dilato Holding's intentions regarding the future of the Company if shareholders approve the acquisition

Dilato Holdings has no plans to change the current direction of the Company which is to continue to focus on water purification and desalination technologies. More information about Dilato Holding's intentions towards the Company is contained in Section 6.5 of this Explanatory Statement.

Any intention of the acquirer to significantly change the financial or dividend policies of the Company

Dilato Holdings has no plans to change the financial or dividend policies of the Company.

The interests that any Director has in the Agreement

Outside of their interests as Directors of and Shareholders in the Company, no Director has any interest in the proposed debt to equity conversions considered in Resolutions 5, 6 and 7. It should be noted that Resolutions 5 to 13 are all interdependent upon each other, and consequently Messrs Redfern and Bylin have an interest in the outcome by virtue of the fact that if Resolutions 5, 6 or 7 are not passed then Resolutions 10, 11 and 12 in which they have interests will also fail.

Details about any person who is intended to become a director if shareholders approve the proposed acquisition and Resolutions 5, 6 and 7

Dilato Holdings has not proposed any new directors following Shareholder approval of the proposed debt to equity conversion.

7.3 Chapter 2E of the Corporations Act

For a public company, or an entity that the public company controls, to give a financial benefit to a related party of the public company, the public company or entity must:

- (a) obtain the approval of the public company's members in the manner set out in sections 217 to 227 of the Corporations Act; and
- (b) give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in sections 210 to 216 of the Corporations Act.

The issue of the Dilato Shares constitutes giving a financial benefit and Dilato Holdings is a related party of the Company by virtue of its control over the Company should Resolutions 5, 6 and 7 be passed.

7.4 ASX Listing Rule 10.11

In addition, ASX Listing Rule 10.11 also requires shareholder approval to be obtained where an entity issues, or agrees to issue, securities to a related party, or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained unless an exception in ASX Listing Rule 10.12 applies.

7.5 Exceptions in Chapter 2E and ASX Listing Rule do not apply

It is the view of the Company that the exceptions set out in sections 210 to 216 of the Corporations Act and ASX Listing Rule 10.12 do not apply in the current circumstances. Accordingly, Shareholder approval is sought for the issue of the Dilato Shares to Dilato Holdings.

7.6 Director's Recommendation

The Board unanimously recommends that Shareholders vote in favour of Resolution 5, 6 and 7 for the following reasons:

- (a) the issue of the Dilato Shares is a method of ensuring that the Company is able to convert significant debt to equity, thereby reducing the liabilities of the Company and strengthening its balance sheet; and

- (b) the Board is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolution 1.

7.7 Technical Information required by ASX Listing Rule 10.13

Pursuant to and in accordance with the requirements of section 219 of the Corporations Act and ASX Listing Rule 10.13, the following information is provided in relation to the proposed issue of the Dilato Shares:

- (a) the related party is Dilato Holdings Pty Ltd by virtue of its control of the Company should Resolutions 5, 6 and 7 be passed;
- (b) the maximum number of Dilato Shares (being the nature of the financial benefit being provided) to be issued to Dilato Holdings is:
- (i) 500,000,000 Shares in lieu of outstanding funds due and payable of \$500,000 at an issue price of \$0.001 per Share for the 2011 WRI Working Capital Facility;
 - (ii) 1,000,000,000 Shares in lieu of outstanding funds due and payable of \$1,000,000 at an issue price of \$0.001 for the 2013 Working Capital Facility; and
 - (iii) 1,814,210,000 Shares in lieu of outstanding funds due and payable of \$2,721,315 at an issue price of \$0.0015 for the Series H convertible Note Facility;
- (c) the Dilato Shares will be issued to the Dilato Holdings no later than 1 month after the date of the Meeting (or such later date as permitted by any ASX waiver or modification of the ASX Listing Rules) and it is anticipated the Dilato Shares will be issued on one date;
- (d) the Dilato Shares will be issued for nil cash consideration as the Dilato Shares are being issued to convert debt to equity, accordingly no funds will be raised;
- (e) the Dilato Shares issued were all fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (f) the relevant interests of the Related Parties in securities of the Company are set out below:

Related Party	Shares	Options
Dilato Holdings	240,000	10,000,000 ¹

Note:

1. 10,000,000 Options exercisable at \$0.10 on or before 22 December 2014 and held by Dilato Holdings as trustee for the Hindsight Investment Trust.

- (g) the trading history of the Shares on ASX in the 12 months before the date of this Notice is set out below:

	Price	Date
Highest	0.8 cents	July 2013
Lowest	0.2 cents	Feb to June 2013

Last	0.2 cents	23 June 2013
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- (h) the primary purpose of the issue of the Dilato Shares is to convert outstanding loan funds to equity. Dilato Holdings have been the sole provider of capital to the company through the last 12 months. However the Company cannot continue to incur debt with no obvious mechanism to repay it in the immediate future. Dilato Holdings has agreed with the Company to convert the loan funds to repay the debt liability;
- (i) Dilution as a result of Resolutions 5 to 7 and 10 to 13 is set out below:

	Shareholding Group	Shares on Issue	Equity Interest
	Existing	426,992,733	10.24%
Shares to be issued – Resolution 5	Dilato – WRI 2011 Working Capital facility	500,000,000	11.99%
Shares to be issued – Resolution 6	Dilato – 2013 Working Capital facility	1,000,000,000	23.98%
Shares to be issued – Resolution 7	Series H Conversion	1,814,210,000	43.50%
Shares to be issued – Resolutions 10 and 11	Dominic Redfern	32,500,000	0.78%
	Bob Bylin	32,500,000	0.78%
Shares to be issued – Resolution 12	Bob Bylin	214,000,000	5.13%
Shares to be issued – Resolution 13	Outstanding Creditors	150,045,000	3.60%
	New Total	4,170,247,733	100%
Dilutionary Effect – All Issues			89.76%
Dilutionary Effect – Related Party – Dilato Holdings			79.47%

Approval pursuant to ASX Listing Rule 7.1 is not required in order to issue the Dilato Shares to Dilato Holdings as approval is being obtained under ASX Listing Rule 10.11. Accordingly, the issue of the Dilato Shares to Dilato Holdings will not be included in the 15% calculation of the Company's annual placement capacity pursuant to ASX Listing Rule 7.1.

8. RESOLUTIONS 8 AND 9 – APPROVAL TO ISSUE CONVERTIBLE NOTES TO DILATO HOLDINGS

The Company has agreed, subject to obtaining Shareholder approval, to issue Dilato Holdings:

- (a) \$500,000 of Series I Convertible Notes and to the issue of 500,000,000 Shares on the conversion of the Series I Convertible Notes;
- (b) \$1,500,000 of Series J Convertible Notes which will either be redeemed or converted to equity,

on the terms and conditions set out below (together the **Dilato Convertible Notes**).

As part of its finance proposal, Dilato Holdings has offered to subscribe for two separate series of Convertible Notes, Series I and Series J, the key terms and conditions of which are set out below.

Series I Convertible Notes

- Provision of interest free 10 Convertible Notes totalling \$500,000 to be drawn down in \$50,000 monthly increments – ie one note per month unless otherwise agreed.
- Once all 10 Convertible Notes have been drawn down funds convert to equity at a price of \$0.001 per share.
- The offer is conditional upon shareholder approval, but also of the restructuring of other Dilato Holdings' facilities described herein.

Series J Convertible Notes

- Provision of a \$1.5 million Convertible Note facility comprising 30 Convertible Notes of \$50,000 each.
- WRG able to commence draw down of facility at any stage within 18 months following Shareholder approval.
- Commencement of facility drawdown can be extended by up to 12 months at the lender's discretion.
- Draw down to be in monthly increments of no greater than \$50,000 unless otherwise agreed.
- On initial draw down the Series J Notes will commence a 3 year Term at the end of which all outstanding Convertible Notes become due and payable through redemption or conversion to equity.
- An interest rate of 10% will accrue until redemption or conversion.
- Conversion to be at the note holder's option based on a 20% discount to the VWAP of the 20 business days prior to the note holder providing the Company with a conversion notice.

8.2 Chapter 2E of the Corporations Act

A summary of Chapter 2E is set out in Section 7.3 of this Notice.

The issue of the Dilato Convertible Notes constitutes giving a financial benefit and Dilato Holdings is a related party of the Company by virtue of its control over the Company should Resolutions 8 and 9 be passed.

8.3 ASX Listing Rule 10.11

ASX Listing Rule 10.11 also requires shareholder approval to be obtained where an entity issues, or agrees to issue, securities to a related party, or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained unless an exception in ASX Listing Rule 10.12 applies.

8.4 Exceptions in Chapter 2E and ASX Listing Rule do not apply

It is the view of the Company that the exceptions set out in sections 210 to 216 of the Corporations Act and ASX Listing Rule 10.12 do not apply in the current circumstances. Accordingly, Shareholder approval is sought for the issue of the Dilato Convertible Notes to Dilato Holdings.

8.5 Director's Recommendation

Outside of their interests as Directors of and Shareholders in the Company, no Director has any interest in the outcome of Resolutions 8 and 9.

The Board unanimously recommends that Shareholders vote in favour of Resolutions 8 and 9 for the following reasons:

- (a) the issue of the Convertible Notes is a method of ensuring that the Company has a facility capable of being drawn down at its election to provide financial assistance to the Company to enable it to continue its plans to commercialise new generation water purification and desalination technology; and
- (b) the Board is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolutions 8 and 9.

8.6 Technical Information required by ASX Listing Rule 10.13

Pursuant to and in accordance with the requirements of section 219 of the Corporations Act and ASX Listing Rule 10.13, the following information is provided in relation to the proposed issue of the Dilato Convertible Notes:

- (a) the related party is Dilato Holdings Pty Ltd by virtue of it controlling the Company should Resolutions 8 and 9 be passed;
- (b) the maximum number of Shares on conversion of the Convertible Notes (being the nature of the financial benefit being provided) to be issued to Dilato Holdings is:
 - (i) 500,000,000 Shares on the conversion of the Series I Convertible Notes;
 - (ii) unknown at this point as the conversion is to occur at some time in the future and will be based on a VWAP at that time. For the purposes of illustration within this Explanatory Statement the conversion at the current VWAP provides an issue of 600,000,000 shares.
- (c) the Dilato Convertible Notes will be issued to the Dilato Holdings no later than 1 month after the date of the Meeting (or such later date as permitted by any ASX waiver or modification of the ASX Listing Rules) and it is anticipated the Dilato Shares will be issued on one date;
- (d) The Dilato Convertible Notes will be issued for cash consideration of up to \$50,000 per Convertible Note, with there to be 10 Series I Convertible Notes and up to 30 Series J Convertible Notes to be issued.

- (e) the Shares on conversion of the Dilato Convertible Notes will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (f) the relevant interests of Dilato Holdings in securities of the Company at the date of this Meeting as are set out in Section 7.7(f) of the Explanatory Memorandum.
- (g) the trading history of the Shares on ASX in the 12 months before the date of this Notice is set out in Section 7.7(f) of the Explanatory Memorandum.
- (h) the primary purpose of the issue of the Dilato Convertible Notes is to provide financial assistance to the Company to enable it to continue its plans to commercialise new generation water purification and desalination technology.
- (i) Dilution as a result of Resolutions 8 and 9 is set out below:

	Shareholding Group	Shares on Issue	Equity Interest
	Existing	426,992,733	8.10%
Shares to be issued – Resolution 5	Dilato – WRI 2011 Working Capital facility	500,000,000	9.49%
Shares to be issued – Resolution 6	Dilato – 2013 Working Capital facility	1,000,000,000	18.97%
Shares to be issued – Resolution 7	Series H Conversion	1,814,210,000	34.42%
Shares to be issued – Resolution 8	Series I Convertible Notes	500,000,000	9.49%
Shares to be issued – Resolution 8	Series J Convertible Notes	600,000,000	11.38%
Shares to be issued – Resolutions 9 and 10	Dominic Redfern	32,500,000	0.61%
	Bob Bylin	32,500,000	0.61%
Shares to be issued – Resolution 12	Bob Bylin	214,000,000	4.06%
Shares to be issued – Resolution 13	Outstanding Creditors	150,045,000	2.85%
	New Total	5,270,247,733	100%
Dilutionary Effect – All Issues			91.9%
Dilutionary Effect – Resolution 8 and 9			20.87
Dilutionary Effect – Related Party – Dilato Holdings			83.76%

Approval pursuant to ASX Listing Rule 7.1 is not required in order to issue the Dilato Convertible Notes to Dilato Holdings or the Shares on conversion of the Dilato Convertible Notes as approval is being obtained under ASX Listing Rule 10.11. Accordingly, the issue of the Dilato Convertible Notes and the issue of the Shares on conversion of the Dilato Convertible Notes to Dilato Holdings will not be included in the 15% calculation of the Company's annual placement capacity pursuant to ASX Listing Rule 7.1.

9. RESOLUTIONS 10 AND 11 – ISSUE OF SHARES IN LIEU OF DIRECTOR FEES TO MESSRS REDFERN AND BYLIN

9.1 General

The Company proposes to issue a total of 65,000,000 Shares to Messrs Dominic Redfern and Bob Bylin (**Related Parties**), or their nominees, for nil consideration in lieu of \$130,000 worth of outstanding Directors' fees payable (being the entire amount of director remuneration for the 2013 financial year) as follows:

Name	Director Fees – 2013 (\$)	Director Fees Waived (\$)	Shares to be issued	Issue Price of Shares (\$)	Value of Shares to be issued (\$)
Dominic Redfern	65,000	32,500	32,500,000	0.001	32,500
Bob Bylin	65,000	32,500	32,500,000	0.001	32,500

The Company has agreed, subject to obtaining Shareholder approval, to issue 65,000,000 Shares (**Director Shares**) to Messrs Redfern and Bylin (or their nominees) on the terms and conditions set out below.

Resolutions 10 and 11 seek Shareholder approval for the grant of the Director Shares to Messrs Redfern and Bylin (or their nominees).

9.2 Chapter 2E of the Corporations Act

For a public company, or an entity that the public company controls, to give a financial benefit to a related party of the public company, the public company or entity must:

- (a) obtain the approval of the public company's members in the manner set out in sections 217 to 227 of the Corporations Act; and
- (b) give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in sections 210 to 216 of the Corporations Act.

The issue of the Director Shares to the Related Parties constitutes giving a financial benefit and Mr Dominic Redfern and Mr Bob Bylin are related parties of the Company by virtue of being Directors.

The Directors (other than Mr Redfern and Mr Bylin who have a material personal interest in Resolutions 10 and 11 respectively) consider that Shareholder approval pursuant to Chapter 2E of the Corporations Act is not required in respect of the issue of the Director Shares because the primary purpose of the issue of the Director Shares is not to raise capital, but to form part of the respective Director's remuneration package. Under the Company's present circumstances, the Board considers that the issue of the Director Shares is a cost effective and appropriate component of the Directors' remuneration packages, and is preferred over the payment of further cash consideration. The Directors (other than Mr Redfern and Mr Bylin who have a material personal interest in Resolutions 10 and 11 respectively) recommend that Shareholders vote in favour of Resolutions 10 and 11 for these reasons.

9.3 ASX Listing Rule 10.11

ASX Listing Rule 10.11 also requires Shareholder approval to be obtained where an entity issues, or agrees to issue, securities to a related party, or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained unless an exception in ASX Listing Rule 10.12 applies.

As the issue of Shares to the Related Parties involves the issue of Shares to related parties of the Company, Shareholder approval pursuant to ASX Listing Rule 10.11 is required unless an exception applies. It is the view of the Directors that the exceptions set out in ASX Listing Rule 10.12 do not apply in the current circumstances.

9.4 Technical information required by ASX Listing Rule 10.13

Pursuant to and in accordance with ASX Listing Rule 10.13, the following information is provided in relation to the issue of the Director Shares:

- (a) the Director Shares will be issued to Mr Dominic Redfern and Mr Bob Bylin;
- (b) the number of Director Shares to be issued is as follows:
 - (i) 32,500,000 shares to Mr. Dominic Redfern or his nominee(s); and
 - (ii) 32,500,000 shares to Mr. Bob Bylin or his nominee(s);
- (c) the Director Shares will be issued no later than 1 month after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that issue of the Director Shares will occur on the same date;
- (d) the issue price will be \$0.001 per Share;
- (e) the Director Shares will be issued for nil cash consideration, accordingly no funds will be raised; and
- (f) the Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;

Approval pursuant to ASX Listing Rule 7.1 is not required for the issue of the Director Shares as approval is being obtained under ASX Listing Rule 10.11. Accordingly, the issue of the Director Shares to Messrs Redfern and Bylin (or their nominees) will not be included in the use of the Company's 15% annual placement capacity pursuant to ASX Listing Rule 7.1.

10. RESOLUTION 12 – ISSUE OF SHARES TO MR BOB BYLIN IN LIEU OF OUTSTANDING MONIES OWED

10.1 General

The Company proposes, subject to obtaining Shareholder approval, to issue a total of 214,000,000 Shares to Mr. Bob Bylin (**Bylin Shares**), or his nominees, for nil consideration in lieu of \$214,000 of outstanding funds owed to Mr. Bylin as follows:

Name	Reason	Amount (\$)	Shares to be issued	Issue Price of Shares (\$)	Value of Shares to be issued (\$)
Bob Bylin	Separation Agreement ¹	112,700	112,700,000	0.001	112,700
	Outstanding Rent ²	101,300	101,300,000	0.001	101,300
Total		214,000	214,000,000		214,000

Notes:

1. US\$100,000 for the provision of lease space and loan funds to the Company, as agreed with Mr Bylin and evidenced through a Memorandum of Understanding executed on 22 July 2013; and
2. 6 months of rent for the provision of leased space in El Dorado Hills at a rate of US\$15,000 per month.

10.2 Chapter 2E of the Corporations Act and ASX Listing Rule 10.11

For a public company, or an entity that the public company controls, to give a financial benefit to a related party of the public company, the public company or entity must:

- (a) obtain the approval of the public company's members in the manner set out in sections 217 to 227 of the Corporations Act; and
- (b) give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in sections 210 to 216 of the Corporations Act.

Approval of Resolution 12 will result in the issue of the Bylin Shares which constitutes giving a financial benefit and Mr Bob Bylin is a related party of the Company by virtue of being a Director.

ASX Listing Rule 10.11 also requires shareholder approval to be obtained where an entity issues, or agrees to issue, securities to a related party, or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained unless an exception in ASX Listing Rule 10.12 applies.

As Resolution 12 involves the issue of the Bylin Shares to a related party of the Company, Shareholder approval pursuant to ASX Listing Rule 10.11 is required unless an exception applies. It is the view of the Directors that the exceptions set out in ASX Listing Rule 10.12 do not apply in the current circumstances.

It is the view of the Company that the exceptions set out in sections 210 to 216 of the Corporations Act and ASX Listing Rule 10.12 do not apply in the current circumstances. Accordingly, Shareholder approval is sought for the issue of the Bylin Shares to Mr Bob Bylin.

10.3 Technical information required by ASX Listing Rule 10.13 and Chapter 2E of the Corporations Act

Pursuant to and in accordance with ASX Listing Rule 10.13 and Chapter 2E of the Corporations Act, the following information is provided in relation to Resolution 7:

- (a) the related party is Mr Bob Bylin and Mr Bylin is a related party by virtue of being a Director;

- (b) the maximum number of Bylin Shares to be issued is 214,000,000 shares (being the nature of the financial benefit being provided) to Mr. Bob Bylin or his nominee(s) in lieu of \$214,000 of outstanding funds owed to Mr. Bylin;
- (c) The Bylin Shares will be issued no later than 1 month after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is anticipated the Bylin Shares will be issued on one date;
- (d) the Bylin Shares will be granted for nil cash consideration, accordingly no funds will be raised;
- (e) the issue price will be \$0.001 per Share; and
- (f) the Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (g) the relevant interests of Mr Bylin in securities of the Company at the date of this Notice is set out below:

Related Party	Shares¹	Options
Bob Bylin	27,940,837 ¹	2,138,335 ²

¹ The 32,500,000 Shares to be issued to Mr Bylin if Shareholder approval is obtained under Resolution 11 is not included in this figure.

² Comprises 26,388,000 Shares held directly by Mr Bylin and 1,552,837 held indirectly through Credal International Ltd in foreign company Mr Bylin is associated with.

² Comprising 1,305,500 Options exercisable at \$0.25 each on or before 31 October 2013 and 442,500 Options exercisable at \$0.12 each on or before 23 May 2015.

- (h) the trading history of the Shares on ASX in the 12 months before the date of this Notice is set out in Section 7.7(f) of the Explanatory Memorandum.
- (i) the primary purpose of the grant of the Bylin Shares to the Mr Bylin is to repay funds owed to Mr Bylin. The issue of the 214,000,000 Shares is in lieu of \$214,000 in funds owed to Mr. Bylin as agreed through Memorandum of Understanding executed on July 22 2013 which dealt with past outstanding fees for rent and other services, together with future ongoing rental costs of US\$15,000 per month. Mr. Bylin owns a facility in El Dorado Hills in California which housed the Company's d'AWSRO pilot plant.

Given the current financial position of the Company, the Directors' consider that the issue of Shares in lieu of management and director fees is a cost effective and efficient means for the Company to conserve cash but remunerate its Directors for their services to the Company.

Dilution as a Result of Resolution 12

- (j) The dilution as a result of the proposed issued to Mr Bylin, and including all other interdependent resolutions, is 4.06% as shown in the table in Section 8.6(i).

- (k) Mr Bylin declines to make a recommendation to Shareholders in relation to Resolution 12 due to his material personal interest in the outcome of the Resolution on the basis that Mr Bylin is to be issued the Bylin Shares in the Company should Resolution 12 be passed.
- (l) with the exception of Mr Bylin, no other Director has a personal interest in the outcome of Resolution 12;
- (m) the Board is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolution 12.

Approval pursuant to ASX Listing Rule 7.1 is not required for the participation as approval is being obtained under ASX Listing Rule 10.11. Accordingly, the issue of Bylin Shares to Mr Bylin (or his nominees) will not be included in the use of the Company's 15% annual placement capacity pursuant to ASX Listing Rule 7.1.

Director's Recommendations to Members and reasons

Mr. Bylin has an interest in the outcome of Resolution 12 and accordingly does not wish to make a recommendation.

The rest of the Directors have no interest in the outcome of Resolution 12 and accordingly are able to make a recommendation to Shareholders. In making their recommendation they note that if Shareholders do not approve Resolution 12 the Company will be required to pay the monies, whilst the interdependence of the resolution will also result in the various debt to equity conversions, and the provisions of facilities by Dilato Holdings contemplated in Resolutions 5 to 7 will also fail. In that circumstance the Directors will have little choice other than to place the Company into Administration.

The Directors (other than Mr Bylin) recommend that Shareholders vote in favour of Resolution 12.

11. RESOLUTION 13 – APPROVAL OF ISSUE OF SHARES TO OUTSTANDING CREDITORS

11.1 General

The Company proposes to issue, subject to Shareholder approval, a total of 138,260,000 Shares (**Creditor Shares**) to the following outstanding creditors, or their nominees, in lieu of \$150,045 of outstanding funds owed to them (**Creditor Placement**) as follows:

Creditor	Outstanding Fees (\$)	Reason	Share Price of Issue	Number of shares to be issued
DW Corporate Pty Ltd	8,500	Company Secretarial Services	0.001	8,500,000
Ms. Fiona Morgan	46,785	CFO and Accounting Services	0.001	46,758,000
Jomick Pty Ltd	2,375	Capital Raising Services	0.001	2,375,000
Peloton Capital Pty Ltd	2,750	Shareholder Services	0.001	2,750,000
M Richmond	26,500	Funds loaned	0.001	26,500,000

Continental	52,613	Funds loaned	0.001	52,613,000
M Youker	5,261	Funds loaned	0.001	5,261,000
M Goode	5,261	Funds loaned	0.001	5,261,000
Total	\$150,045			150,018,000

Dilution as a Result of Resolution 13

The dilution as a result of Resolution 13 is as shown in the tables contained in Section 7.7(i) (undiluted) and 8.6(i) (diluted.) The dilution of the issue of shares to outstanding creditors is 3.60% (undiluted) and 2.60% (diluted)

ASX Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more equity securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

The effect of Resolution 13 will be to allow the Company to issue the Creditor Shares pursuant to the Placement during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity.

11.2 Technical information required by ASX Listing Rule 7.1

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to the Placement:

- (a) the maximum number of Shares to be issued is 150,045,000;
- (b) the Shares will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules);
- (c) the issue price will be \$0.001 per Share;
- (d) the Shares will be issued to the creditors set out in Section 11.1 above. None of these subscribers are related parties of the Company;
- (e) the Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares; and
- (f) the Company intends to use the funds raised from the Placement towards the outstanding fund owed to the creditors set out in the table above.

12. RESOLUTION 14 - APPROVAL OF 10% PLACEMENT CAPACITY– SHARES

12.1 General

ASX Listing Rule 7.1A provides that an Eligible Entity may seek Shareholder approval at its annual general meeting to allow it to issue Equity Securities up to 10% of its issued capital (**10% Placement Capacity**).

The Company is an Eligible Entity.

If Shareholders approve Resolution 14, the number of Equity Securities the Eligible Entity may issue under the 10% Placement Capacity will be determined in accordance with the formula prescribed in ASX Listing Rule 7.1A.2 (as set out in section 12.2 below).

The effect of Resolution 14 will be to allow the Company to issue Equity Securities up to 10% of the Company's fully paid ordinary securities on issue under the 10% Placement Capacity during the period up to 12 months after the Meeting, without subsequent Shareholder approval and without using the Company's 15% annual placement capacity granted under Listing Rule 7.1.

Resolution 14 is a special resolution. Accordingly, at least 75% of votes cast by Shareholders present and eligible to vote at the Meeting must be in favour of Resolution 14 for it to be passed.

12.2 ASX Listing Rule 7.1A

ASX Listing Rule 7.1A came into effect on 1 August 2012 and enables an Eligible Entity to seek shareholder approval at its annual general meeting to issue Equity Securities in addition to those under the Eligible Entity's 15% annual placement capacity.

An Eligible Entity is one that, as at the date of the relevant annual general meeting:

- (a) is not included in the S&P/ASX 300 Index; and
- (b) has a maximum market capitalisation (excluding restricted securities and securities quoted on a deferred settlement basis) of \$300,000,000.

The Company is an Eligible Entity as it is not included in the S&P/ASX 300 Index and has a current market capitalisation of \$ 853,985.

Any Equity Securities issued must be in the same class as an existing class of quoted Equity Securities. The Company currently has nine classes of Equity Securities on issue, being the Shares (ASX Code:WRG), seven classes of unlisted Options and one class of Convertible Notes.

The exact number of Equity Securities that the Company may issue under an approval under Listing Rule 7.1A will be calculated according to the following formula:

$$(A \times D) - E$$

Where:

- A** is the number of Shares on issue 12 months before the date of issue or agreement:
- (i) plus the number of Shares issued in the previous 12 months under an exception in ASX Listing Rule 7.2;
 - (ii) plus the number of partly paid shares that became fully paid in the previous 12 months;
 - (iii) plus the number of Shares issued in the previous 12 months with approval of holders of Shares under Listing Rules 7.1 and 7.4. This does not include an issue of fully paid ordinary shares under

the entity's 15% placement capacity without shareholder approval; and

(iv) less the number of Shares cancelled in the previous 12 months.

D is 10%.

E is the number of Equity Securities issued or agreed to be issued under ASX Listing Rule 7.1A.2 in the 12 months before the date of issue or agreement to issue that are not issued with the approval of holders of Ordinary Securities under ASX Listing Rule 7.1 or 7.4.

12.3 Technical information required by ASX Listing Rule 7.1A

Pursuant to and in accordance with ASX Listing Rule 7.3A, the information below is provided in relation to this Resolution 14:

(a) Minimum Price

The minimum price at which the Equity Securities may be issued is 75% of the volume weighted average price of Equity Securities in that class, calculated over the 15 ASX trading days on which trades in that class were recorded immediately before:

- (i) the date on which the price at which the Equity Securities are to be issued is agreed; or
- (ii) if the Equity Securities are not issued within 5 ASX trading days of the date in section 12.3(a)(i), the date on which the Equity Securities are issued.

(b) Date of Issue

The Equity Securities may be issued under the 10% Placement Capacity commencing on the date of the Meeting and expiring on the first to occur of the following:

- (i) 12 months after the date of this Meeting; and
- (ii) the date of approval by Shareholders of any transaction under ASX Listing Rules 11.1.2 (a significant change to the nature or scale of the Company's activities) or 11.2 (disposal of the Company's main undertaking) (after which date, an approval under Listing Rule 7.1A ceases to be valid),

(10% Placement Capacity Period).

(c) Risk of voting dilution

Any issue of Equity Securities under the 10% Placement Capacity will dilute the interests of Shareholders who do not receive any Shares under the issue.

If Resolution 14 is approved by Shareholders and the Company issues the maximum number of Equity Securities available under the 10% Placement Capacity, the economic and voting dilution of existing Shares would be as shown in the table below.

The table below shows the dilution of existing Shareholders calculated in accordance with the formula outlined in ASX Listing Rule 7.1A(2), on the basis of the current market price of Shares and the current number of Equity Securities on issue as at the date of this Notice.

The table also shows the voting dilution impact where the number of Shares on issue (Variable A in the formula) changes and the economic dilution where there are changes in the issue price of Shares issued under the 10% Placement Capacity.

Number of Shares on Issue (Variable 'A' in ASX Listing Rule 7.1A2)	Dilution			
	Issue Price (per Share)	0.001 50% decrease in Issue Price	0.002 Issue Price	0.004 100% increase in Issue Price
5,270,247,733 (Current Variable A)	Shares issued - 10% voting dilution	527,024,773 Shares	527,024,773 Shares	527,024,773 Shares
	Funds raised	\$527,024	\$1,054,050	\$2,108,099
7,905,371,599 (50% increase in Variable A)	Shares issued - 10% voting dilution	790,537,160 Shares	790,537,160 Shares	790,537,160 Shares
	Funds raised	\$790,537	\$1,581,074	\$3,162,149
10,540,495,466 (100% increase in Variable A)	Shares issued - 10% voting dilution	1,054,049,546 Shares	1,054,049,546 Shares	1,054,049,546 Shares
	Funds raised	\$1,054,050	\$2,108,099	\$4,216,198

*The number of Shares on issue (Variable A in the formula) could increase as a result of the issue of Shares that do not require Shareholder approval (such as under a pro-rata rights issue or scrip issued under a takeover offer) or that are issued with Shareholder approval under Listing Rule 7.1.

The table above uses the following assumptions:

- There are currently 5,270,247,733 Shares on issue comprising:
 - 426,992,733 existing Shares as at the date of this Notice of Meeting;
 - 4,170,247,733 Shares which will be issued if Resolutions 5 to 7 and 10 to 13 are passed at this Meeting; and
 - 1,100,000,000 Shares (or such other figure which can be issued as a result of the VWAP in Resolution 9) which are to be issued pursuant to conversion of the Convertible Notes which approval is sought under Resolutions 8 and 9.
- The issue price set out above is the closing price of the Shares on the ASX on 19 June 2014.
- The Company issues the maximum possible number of Equity Securities under the 10% Placement Capacity.
- The Company has not issued any Equity Securities in the 12 months prior to the Meeting that were not issued under an exception in ASX Listing Rule 7.2 or with approval under ASX Listing Rule 7.1.

5. The issue of Equity Securities under the 10% Placement Capacity consists only of Shares. It is assumed that no Options are exercised into Shares before the date of issue of the Equity Securities.
6. The calculations above do not show the dilution that any one particular Shareholder will be subject to. All Shareholders should consider the dilution caused to their own shareholding depending on their specific circumstances.
7. This table does not set out any dilution pursuant to approvals under ASX Listing Rule 7.1.
8. The 10% voting dilution reflects the aggregate percentage dilution against the issued share capital at the time of issue. This is why the voting dilution is shown in each example as 10%.
9. The table does not show an example of dilution that may be caused to a particular Shareholder by reason of placements under the 10% Placement Capacity, based on that Shareholder's holding at the date of the Meeting.

Shareholders should note that there is a risk that:

- (i) the market price for the Company's Shares may be significantly lower on the issue date than on the date of the Meeting; and
- (ii) the Shares may be issued at a price that is at a discount to the market price for those Shares on the date of issue.

(d) **Purpose of Issue under 10% Placement Capacity**

The Company may issue Equity Securities under the 10% Placement Capacity for the following purposes:

- (i) as cash consideration in which case the Company intends to use funds raised to assist the Company's development of its water purification and desalination plans;
- (ii) as non-cash consideration for acquisition of assets associated with the Company's water desalination technology. In such circumstances the Company will provide a valuation of the non-cash consideration as required by listing Rule 7.1A.3.

The Company will comply with the disclosure obligations under Listing Rules 7.1A(4) and 3.10.5A upon issue of any Equity Securities.

(e) **Allocation policy under the 10% Placement Capacity**

The Company's allocation policy for the issue of Equity Securities under the 10% Placement Capacity will be dependent on the prevailing market conditions at the time of the proposed placement(s).

The recipients of the Equity Securities to be issued under the 10% Placement Capacity have not yet been determined. However, the recipients of Equity Securities could consist of current Shareholders or new investors (or both), none of whom will be related parties of the Company.

The Company will determine the recipients at the time of the issue under the 10% Placement Capacity, having regard to the following factors:

- (i) the purpose of the issue;

- (ii) alternative methods for raising funds available to the Company at that time, including, but not limited to, an entitlement issue or other offer where existing Shareholders may participate;
- (iii) the effect of the issue of the Equity Securities on the control of the Company;
- (iv) the circumstances of the Company, including, but not limited to, the financial position and solvency of the Company;
- (v) prevailing market conditions; and
- (vi) advice from corporate, financial and broking advisers (if applicable).

Further, if the Company is successful in acquiring new resources, assets or investments, it is likely that the recipients under the 10% Placement Capacity will be vendors of the new resources, assets or investments.

(f) **Previous approval under ASX Listing Rule 7.1A**

The Company previously obtained approval from its Shareholders pursuant to ASX Listing Rule 7.1A at its annual general meeting held on 25 June 2013 (**Previous Approval**).

The Company has not issued any Equity Securities pursuant to the Previous Approval.

During the 12 month period preceding the date of the Meeting, being on and from 31 July 2013, the Company has not issued any Equity Securities under any other purpose.

(g) **Compliance with ASX Listing Rules 7.1A.4 and 3.10.5A**

When the Company issues Equity Securities pursuant to the 10% Placement Capacity, it must give to ASX:

- (i) a list of the recipients of the Equity Securities and the number of Equity Securities issued to each (not for release to the market), in accordance with Listing Rule 7.1A.4; and
- (ii) the information required by Listing Rule 3.10.5A for release to the market.

12.4 Voting Exclusion

A voting exclusion statement is included in this Notice. As at the date of this Notice, the Company has not invited any existing Shareholder to participate in an issue of Equity Securities under ASX Listing Rule 7.1A. Therefore, no existing Shareholders will be excluded from voting on Resolution 14.

GLOSSARY

\$ means Australian dollars.

10% Placement Capacity has the meaning given in section 12.1 of the Explanatory Statement.

AEST means Australian Eastern Standard Time as observed in Sydney, Australia.

Annual General Meeting or **Meeting** means the meeting convened by the Notice.

ASIC means the Australian Securities & Investments Commission.

ASWRO means Advanced Sea Water Reverse Osmosis.

ASX means ASX Limited (ACN 008 624 691) or the financial market operated by ASX Limited, as the context requires.

ASX Listing Rules means the Listing Rules of ASX.

Board means the current board of directors of the Company.

Business Day means Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day, and any other day that ASX declares is not a business day.

Capital Raising means the proposed capital raising pursuant to Resolutions 8 and 9.

Chair means the chair of the Meeting.

Closely Related Party of a member of the Key Management Personnel means:

- (a) a spouse or child of the member;
- (b) a child of the member's spouse;
- (c) a dependent of the member or the member's spouse;
- (d) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealing with the entity;
- (e) a company the member controls; or
- (f) a person prescribed by the Corporations Regulations 2001 (Cth) for the purposes of the definition of 'closely related party' in the Corporations Act.

Company means Water Resources Limited (ACN 124 426 339).

Constitution means the Company's constitution.

Conversion means the conversion of debt to equity pursuant to Resolutions 5, 6 and 7.

Convertible Notes means the Series I and Series J Convertible Notes to be issued pursuant to Resolutions 8 and 9 as applicable.

Corporations Act means the *Corporations Act 2001* (Cth).

Dilato Holdings means Dilato Holdings Pty Ltd (ACN 109 588 785).

Directors means the current directors of the Company.

DMR Corporate means DMR Corporate Pty Ltd ACN 063 564 045.

Eligible Entity means an entity that, at the date of the relevant general meeting:

- (a) is not included in the S&P/ASX 300 Index; and
- (b) has a maximum market capitalisation (excluding restricted securities and securities quoted on a deferred settlement basis) of \$300,000,000.

Equity Securities includes a Share, a right to a Share or Option, an Option, a convertible security and any security that ASX decides to classify as an Equity Security.

Expert's Report means the DMR Corporate Pty Ltd Independent Expert's Report attached at Schedule 1.

Explanatory Statement means the explanatory statement accompanying the Notice.

Key Management Personnel has the same meaning as in the accounting standards issued by the Australian Accounting Standards Board and means those persons having authority and responsibility for planning, directing and controlling the activities of the Company, or if the Company is part of a consolidated entity, of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the Company, or if the Company is part of a consolidated entity, of an entity within the consolidated group.

Notice or **Notice of Meeting** means this notice of meeting including the Explanatory Statement and the Proxy Form.

Option means an option to acquire a Share.

Ordinary Securities has the meaning set out in the ASX Listing Rules.

Proxy Form means the proxy form accompanying the Notice.

Remuneration Report means the remuneration report set out in the Director's report section of the Company's annual financial report for the year ended 31 December 2013.

Resolutions means the resolutions set out in the Notice, or any one of them, as the context requires.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means a registered holder of a Share.

Variable A means "A" as set out in the calculation in section 12.2 of the Explanatory Statement.

SCHEDULE 1 – DMR CORPORATE INDEPENDENT EXPERT’S REPORT

PROXY FORM

**APPOINTMENT OF PROXY
WATER RESOURCES GROUP LIMITED
ABN 11 124 426 339**

GENERAL MEETING

I/We
of

being a Shareholder entitled to attend and vote at the Meeting, hereby
appoint
Name of proxy

OR the Chair as my/our proxy

or failing the person so named or, if no person is named, the Chair, or the Chair's nominee, to vote in accordance with the following directions, or, if no directions have been given, and subject to the relevant laws as the proxy sees fit, at the Meeting to be held at 10 AM (AEST), on 31 July 2014 at Level 3, 2 – 4 Ross Place South Melbourne, Victoria, 3205 and at any adjournment thereof.

The Chair intends to vote undirected proxies in favour of all Resolutions in which the Chair is entitled to vote.

Voting on business of the Meeting	FOR	AGAINST	ABSTAIN
Resolution 1 – Adoption of Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2 – Election of Simon Lill as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3 – Election of Steve Morris as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4 – Re-election of Robert Bylin	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5 – Issue of shares to Dilato – WRI 2011 Working Capital Facility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6 – Issue of shares to Dilato – 2013 Working Capital Facility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7 – Issue of shares to Dilato – Conversion of Series H Notes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 8 – Approval to issue Series I Convertible Notes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 9 – Approval to issue Series J Convertible Notes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 10 – Issue of shares to Dominic Redfern in lieu of Director Fees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 11 – Issue of shares to Bob Bylin in lieu of Director Fees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 12 – Issue of shares to Bob Bylin in respect of outstanding funds owed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 13 – Issue of shares to Outstanding Creditors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 14 – Approval of 10% Placement Capacity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please note: If you mark the abstain box for a particular Resolution, you are directing your proxy not to vote on that Resolution on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

Important for Resolution 1

If you have not directed your proxy how to vote as your proxy in respect of Resolution 1 and the Chair is, or may by default be, appointed your proxy, you must mark the box below.

I/we direct the Chair to vote in accordance with his/her voting intentions (as set out above) on Resolution 1 (except where I/we have indicated a different voting intention above) and expressly authorise that the Chair may exercise my/our proxy even though Resolution 1 is connected directly or indirectly with the remuneration of a member of the Key Management Personnel.

If the Chair is, or may by default be, appointed your proxy and you do not mark this box and you have not directed the Chair how to vote, the Chair will not cast your votes on Resolution 1 and your votes will not be counted in calculating the required majority if a poll is called on Resolution 1.

If two proxies are being appointed, the proportion of voting rights this proxy represents is _____%

Signature of Shareholder(s):

Date: _____

Individual or Shareholder 1

Shareholder 2

Shareholder 3

Sole Director/Company Secretary

Director

Director/Company Secretary

Contact Name: _____ **Contact Ph (daytime):** _____

Instructions for Completing 'Appointment of Proxy' Form

1. **(Appointing a proxy):** A Shareholder entitled to attend and cast a vote at the Meeting is entitled to appoint a proxy to attend and vote on their behalf at the Meeting. If a Shareholder is entitled to cast 2 or more votes at the Meeting, the Shareholder may appoint a second proxy to attend and vote on their behalf at the Meeting. However, where both proxies attend the Meeting, voting may only be exercised on a poll. The appointment of a second proxy must be done on a separate copy of the Proxy Form. A Shareholder who appoints 2 proxies may specify the proportion or number of votes each proxy is appointed to exercise. If a Shareholder appoints 2 proxies and the appointments do not specify the proportion or number of the Shareholder's votes each proxy is appointed to exercise, each proxy may exercise one-half of the votes. Any fractions of votes resulting from the application of these principles will be disregarded. A duly appointed proxy need not be a Shareholder.
2. **(Direction to vote):** A Shareholder may direct a proxy how to vote by marking one of the boxes opposite each item of business. The direction may specify the proportion or number of votes that the proxy may exercise by writing the percentage or number of Shares next to the box marked for the relevant item of business. Where a box is not marked the proxy may vote as they choose subject to the relevant laws. Where more than one box is marked on an item the vote will be invalid on that item.
3. **(Signing instructions):**
 - (a) **(Individual):** Where the holding is in one name, the Shareholder must sign.
 - (b) **(Joint holding):** Where the holding is in more than one name, all of the Shareholders should sign.
 - (c) **(Power of attorney):** If you have not already provided the power of attorney with the registry, please attach a certified photocopy of the power of attorney to this Proxy Form when you return it.
 - (d) **(Companies):** Where the company has a sole director who is also the sole company secretary, that person must sign. Where the company (pursuant to Section 204A of the Corporations Act) does not have a company secretary, a sole director can also sign alone. Otherwise, a director jointly with either another director or a company secretary must sign. Please sign in the appropriate place to indicate the office held. In addition, if a representative of a company is appointed pursuant to Section 250D of the Corporations Act to attend the Meeting, the documentation evidencing such appointment should be produced prior to admission to the Meeting. A form of a certificate evidencing the appointment may be obtained from the Company.
4. **(Attending the Meeting):** Completion of a Proxy Form will not prevent individual Shareholders from attending the Meeting in person if they wish. Where a Shareholder completes and lodges a valid Proxy Form and attends the Meeting in person, then the proxy's authority to speak and vote for that Shareholder is suspended while the Shareholder is present at the Meeting.
5. **(Return of Proxy Form):** To vote by proxy, please complete and sign the enclosed Proxy Form and return by:
 - (b) post to: Water Resources Group Limited, Level 3, 2 – 4 Ross Place, South Melbourne, Victoria. 3205;
 - (c) facsimile to: +61 3 9673 9673; or
 - (d) email to corporate@waterresourcesgroup.com,

so that it is received not less than 48 hours prior to commencement of the Meeting.

Proxy forms received later than this time will be invalid.

24 June 2014

The Independent Directors
Water Resources Group Limited
2-4 Ross Place
South Melbourne, Vic 3205

Dear Sirs,

Re: Independent Expert's Report

1. Introduction

You have requested DMR Corporate Pty Ltd ("DMR Corporate") to prepare an independent expert's report in respect of a proposal to recapitalize Water Resources Group Limited ("WRG" or "the Company"). The transaction, as set out in Section 2 below, is permitted by Section 611 of the Corporations Act 2001 ("the Act") provided it is agreed to by shareholders, other than those involved in the proposed transaction or persons associated with such persons (i.e. the Non-Associated Shareholders).

WRG issued a prospectus in November 2010 to raise a minimum of \$15 million to fund the development and commercialization of a desalination system referred to as Advanced Sea Water Reverse Osmosis ("ASWRO"). These attempts have ultimately not been successful and WRG has exhausted all of its available funding. During the recent past WRG has been unable to secure new sources of funding other than from Dilato Holdings Pty Ltd, in its capacity as trustee for the Hindsight Investment Trust ("Dilato").

WRG's 31 December 2013 financial statements disclose a deficiency of shareholders' funds in the amount of \$5,297,254.

Up until 27 May 2014 WRG received from Dilato the following funding:

- \$500,000 working capital loan
- \$835,000 working capital facilities advanced since March 2013. Dilato continues to advance additional funds to enable WRG to meet its commitments and WRG estimates that the amount owing pursuant to this facility may reach \$1,000,000 by the time of the shareholders' meeting.

In addition Dilato holds Series H Convertible Notes. The Series H Convertible Notes have a face value of \$2,000,000 and matured on 29 June 2013. WRG did not have the funds available to repay the Series H Convertible Notes at their maturity and on or about their maturity Dilato purchased the Series H Convertible Notes from Deutsche Bank AG. As at 31 December 2013 the principal and interest outstanding in respect of the Series H Convertible Notes totalled \$2,887,725.

Dilato now proposes to recapitalise WRG by converting existing loans to equity and providing further funds to WRG through the issue of new convertible notes. More specifically Dilato has offered to:

- a) convert a fully drawn working capital loan of \$500,000 into WRG shares at \$0.001 per share. Dilato has agreed to forgo all accrued interest and fees in respect of this facility.
- b) convert the current working capital loan of up to \$1,000,000 into WRG shares at \$0.001 per share. Dilato has agreed to forgo all accrued interest and fees in respect of this facility. This facility is currently drawn to \$835,000.
- c) convert the Series H Convertible Notes at \$0.0015 per share, with all accumulated interest since June 2013 to be forgone.

Dilato has also offered to make the following new facilities available to WRG:

- d) a convertible note facility of \$500,000 (Series I), which can be drawn down by WRG over 24 months as from the date of the shareholder approval at the rate of \$50,000 per month. Once this facility is fully drawn by WRG it will immediately convert into WRG shares at \$0.001 per share. The Series I convertible notes are interest free.
- e) a convertible note facility of \$1,500,000 (Series J), comprising of 30 notes of \$50,000 each. This facility will remain available for drawdown for 24 months as from the date of the shareholder approval. The facility matures 3 years from the first drawdown and carries interest of 10% per annum. The drawdowns are limited to \$50,000 per month. The amounts drawn down will be convertible at a 20% discount to the 20-day volume weighted average price ("VWAP") of the WRG shares at the time of drawdown.

2. The Proposed Transaction

2.1 Outline of the Proposed Transaction

At the forthcoming General Meeting WRG shareholders are being asked to approve thirteen separate resolutions. Whilst we are only required to report on resolutions 5 to 9, as resolutions 5 to 13 are interdependent and shareholders must approve each of these resolutions for any of them to be implemented, we regard resolutions 5 to 13 as one transaction, to which we refer to as the Proposed Transaction in the balance of this report.

The resolutions that together form the Proposed Transaction provide as follows:

- Resolution 5:** approval of issue of 500,000,000 shares to Dilato in lieu of outstanding funds due and payable to Dilato Holdings for the 2011 Working Capital facility
- Resolution 6:** approval of issue of up to 1,000,000,000 shares to Dilato in lieu of outstanding funds due and payable to Dilato Holdings for the 2013 Working Capital facility

- Resolution 7:** approval of issue of 1,814,210,000 shares to Dilato in lieu of outstanding funds due and payable to Dilato for the Series H Convertible Note facility
- Resolution 8:** approval to issue \$500,000 Series I Convertible Notes to Dilato and to issue 500,000,000 shares on conversion of the Series I Convertible Notes
- Resolution 9:** approval to issue \$1,500,000 Series J Convertible Notes to Dilato and to issue up to 600,000,000 shares on conversion of the Series J Convertible Notes
- Resolution 10:** approval of issue of 32,500,000 shares to Mr Dominic Redfern in lieu of director fees
- Resolution 11:** approval of issue of 32,500,000 shares to Mr Bob Bylin in lieu of director fees
- Resolution 12:** approval of issue of 214,000,000 shares to Mr Bob Bylin in respect of outstanding funds owed
- Resolution 13:** approval of issue of 150,045,000 shares to outstanding creditors

2.2 Impact of the Proposed Transaction

The Proposed Transaction will result in the issue of a significant number of shares and the proposed issue of convertible notes may further dilute the interests of the Non-Associated Shareholders on conversion of the convertible notes. The impact on the Non-Associated Shareholders and their relative percentage interests after the Proposed Transaction is set out below:

Proposed Capital Structure	Resolution	Shares On Issue After the Proposed Transaction but Before Conversion of Convertible Notes	Interests After the Proposed Transaction but Before Conversion of Convertible Notes %	Issue After the Proposed Transaction and After Conversion of Series I and J Convertible Notes	Interests After the Proposed Transaction and After Conversion of Series I and J Convertible Notes %
Non Associated Shareholders' Interests		426,992,733	10.24%	426,992,733	8.10%
Issue of shares to Directors in lieu of fees	10 & 11	65,000,000	1.56%	65,000,000	1.23%
Conversion of loan from Mr Bob Bylin into equity	12	214,000,000	5.13%	214,000,000	4.06%
Conversion of other creditors into equity	13	150,045,000	3.60%	150,045,000	2.85%
Shares held by other shareholders after the Proposed Transaction		856,037,733	20.53%	856,037,733	16.24%
Dilato					
Capitalisation of 2011 Working Capital facility	5	500,000,000	11.99%	500,000,000	9.49%
Capitalisation of 2013 Working Capital facility	6	1,000,000,000	23.98%	1,000,000,000	18.97%
Conversion of Series H Convertible Notes	7	1,814,210,000	43.50%	1,814,210,000	34.42%
Conversion of Series I Convertible Notes	8			500,000,000	9.49%
Conversion of Series J Convertible Notes *	9			600,000,000	11.38%
Dilato Interests		3,314,210,000	79.47%	4,414,210,000	83.76%
Share Capital after the Proposed Transaction		4,170,247,733	100.00%	5,270,247,733	100.00%

* J Series Convertible Notes are convertible into shares at a 20% discount to the 20-day VWAP of the WRG shares at the time of drawdown. Based on the current 20 day VWAP the above table assumes conversion of the \$1.5 million facility will be at \$0.0025 per share. The actual conversion may differ depending on the current market price of the WRG shares at each drawdown.

As can be seen from the above table, if the WRG shareholders approve the Proposed Transaction, Dilato may control 79.47% of WRG's voting power prior to any conversion of Series I and J Convertible Notes.

Should Dilato convert the Series I and J Convertible Notes and WRG not issue any further shares before the conversion, Dilato may control up to 83.76% of WRG's voting power.

The directors have requested DMR Corporate to prepare an independent expert's report in accordance with ASIC Regulatory Guide 111 – Content of expert reports. ASIC Regulatory Guide 111 requires WRG to advise shareholders whether the Proposed Transaction is fair and reasonable, when considered in the context of the interests of the Non-Associated Shareholders.

The directors have requested DMR Corporate to independently assess whether the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders.

3. Summary Opinion

In our opinion, the Proposed Transaction set out in Section 2 above is **fair and reasonable** to the Non-Associated Shareholders.

Our principal reasons for reaching the above opinion are:

- we have formed the opinion that the WRG shares held by the Non-Associated Shareholders are valued in a range of \$nil up to a maximum value of \$80,000 (Section 7.9); and
- we assessed the value of the shares held by the Non-Associated Shareholders' after the Proposed Transaction to be in a range of \$5,000 to \$21,000 (Section 10).

As the value of the Non-Associated Shareholders' minority interests after the Proposed Transaction (\$5,000 to \$21,000) is within the range of the value of their controlling interests before the Proposed Transaction (\$nil to \$80,000), we have concluded that the Proposed Transaction is fair. As the Proposed Transaction is fair, it is also deemed to be reasonable.

4. Structure of this Report

This report is divided into the following Sections:

<u>Section</u>	<u>Page</u>
5 Purpose of the Report	5
6 WRG - Key Information	7
7 Valuation of WRG Before the Proposed Transaction	11
8 Valuation of WRG After the Proposed Transaction	16
9 Control Premium	18
10 Assessment as to Fairness	18
11 Other Significant Considerations	19
12 Financial Services Guide	20
 <u>Appendix</u>	
A Sources of Information	22
B Declarations, Qualifications and Consents	23

5. Purpose of the Report

This report has been prepared to meet the following regulatory requirements:

- **Corporations Act 2001**

Section 606 of the Act contains a general prohibition on the acquisition of shares in a company if, as a result of the acquisition, any person increases his or her voting power in the company from 20% or below to more than 20%.

Section 611 of the Act contains various exceptions to the Section 606 prohibition. For an acquisition of shares, pursuant to the Proposed Transaction, to fall within the exceptions, the acquisition must be:

- (a) an acquisition that increases a shareholder's voting power by not more than 3% in each 6 month period; or
- (b) an acquisition that results from an issue of securities that satisfies all of the following conditions:
 - a company offers to issue securities in a particular class;
 - offers are made to every person who holds securities in that class to issue them with the percentage of the securities to be issued that is the same as the percentage of the securities in that class that they hold before the issue;
 - all of those persons have a reasonable opportunity to accept the offers made to them;
 - agreements to issue are not entered into until a specified time for acceptances of offers has closed; and
 - the terms of the offers are the same; or
- (c) an acquisition approved in advance by a resolution passed at a general meeting of the company, subject to the applicable voting restrictions.

WRG is seeking shareholder approval for the Proposed Transaction under item 7 of Section 611 of the Act (exception (c)) as Dilato will increase its interests in WRG from nil to in excess of 20%, if the Proposed Transaction proceeds.

- **ASIC Regulatory Guides**

This report has been prepared in accordance with the ASIC Regulatory Guides and more particularly:

RG 111 – Content of Expert Reports (“RG111”)

RG 111.24 An issue of shares by a company otherwise prohibited under S606 may be approved under item 7 of S611 and the effect on the company's shareholding is comparable to a takeover bid. Examples of such issues approved under item 7 of S611 that are comparable to takeover bids under Ch 6 include:

- (a) a company issues securities to the vendor of another entity or to the vendor of a business and, as a consequence, the vendor acquires over 20% of the company incorporating the merged businesses. The vendor could have achieved the same or a similar outcome by launching a scrip takeover for the company; and
- (b) a company issues securities in exchange for cash and, as a consequence, the allottee acquires over 20% of the company. The allottee could have achieved the same or a similar outcome by using a cash-rich entity to make a scrip takeover bid for the company.

- RG111.27 There may be circumstances in which the allottee will acquire 20% or more of the voting power of the securities in the company following the allotment or increase an existing holding of 20% or more, but does not obtain a practical measure of control or increase its practical control over that company. If the expert believes that the allottee has not obtained or increased its control over the company as a practical matter, then the expert could take this outcome into account in assessing whether the issue price is 'reasonable' if it has assessed the issue price as being 'not fair' applying the test in RG111.11.
- RG111.10 It has long been accepted in Australian mergers and acquisitions practice that the words 'fair and reasonable' in S640 established two distinct criteria for an expert analysing a control transaction:
- (a) is the offer 'fair'; and
 - (b) is it 'reasonable'?
- That is, 'fair and reasonable' is not regarded as a compound phrase.
- RG111.11 Under this convention, an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer. This comparison should be made assuming 100% ownership of the 'target' and irrespective of whether the consideration is scrip or cash. The expert should not consider the percentage holding of the 'bidder' or its associates in the target when making this comparison. For example, in valuing securities in the target entity, it is inappropriate to apply a discount on the basis that the shares being acquired represent a minority or 'portfolio' parcel of shares.
- RG111.12 An offer is 'reasonable' if it is fair. It might also be 'reasonable' if, despite being 'not fair', the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

ASIC Regulatory Guide 111 requires that the Proposed Transaction be assessed as if it was a takeover of WRG.

In assessing a takeover bid Regulatory Guide 111 states that the expert should consider whether the Proposed Transaction is both "fair" and "reasonable".

- **General**

The terms "fair" and "reasonable" are not defined in the Act, however guidance as to the meaning of these terms is provided by ASIC in Regulatory Guide 111. For the purpose of this report, we have defined them as follows:

- Fairness - the Proposed Transaction is "fair" if the value of the Non-Associated Shareholders' interests after the Proposed Transaction is equal to or greater than the value of their interests before the Proposed Transaction.
- Reasonableness - the Proposed Transaction is "reasonable" if it is fair. It may also be "reasonable" if, despite not being "fair" but after considering other significant factors, shareholders should vote in favour of the Proposed Transaction in the absence of a superior proposal being received.

In determining whether the Proposed Transaction is fair, we have:

- valued the Non-Associated Shareholders' controlling interests in WRG before the Proposed Transaction;
- valued the Non-Associated Shareholders' minority interests in WRG after the Proposed Transaction; and

- compared the values before and after the Proposed Transaction.

In determining whether the Proposed Transaction is reasonable we have analysed other significant factors, which the Non-Associated Shareholders should consider prior to accepting or rejecting the Proposed Transaction.

6. WRG - Key Information

6.1 Background

WRG was incorporated in March 2007 and in November 2010 the Company issued a prospectus to raise a minimum of \$15 million and up to \$25 million of new equity. The equity raised was to be used in part to fund equity contributions to the development of WRG's ASWRO desalination system.

ASWRO is a relatively small-scale desalination system designed to pre-treat seawater using ozone extracted from ambient air using WRG's proprietary "Plasma Chemical Reactor" technology. The desalination plants were to be remotely controlled and WRG's business model was for the plants to be developed in joint venture with local partners. The ASWRO plants are modular in design and able to produce between 1,000 m³/day up to 60,000 m³ per day.

WRG has to date not been successful in commercialising the desalination system and the Company has exhausted the funds raised pursuant to the prospectus as well as follow-up capital raisings.

6.2 WRG's Directors

The table below details WRG's Board of Directors.

Director	Position
Mr Steve Morris	Chairman
Mr Dominic Redfern	Non executive Director
Mr Robert Bylin	Non executive Director
Mr Simon Lill	Non executive Director

6.3 Share Capital

As at the date of this report WRG had 426,992,733 fully paid ordinary shares on issue and the 10 major shareholders of WRG as at 2 June 2014 were:

Shareholder	No of Shares	%
HSBC Custody Nominees (Australia) Limited	37,316,793	8.74%
Credal International Limited	22,778,813	5.33%
Mr Robert Olav Bylin & Mrs Sandra Dee Bylin	21,117,820	4.95%
Mr Gavin Joseph Rezos	20,420,268	4.78%
Mr Michael Dimitrios	20,000,000	4.68%
Citicorp Nominees Pty Ltd	10,529,671	2.47%
Altima Restructure Fund Limited	10,269,036	2.40%
Credit First Holdings Limited	9,349,487	2.19%
Ms Fiona Jean Morgan	7,193,703	1.68%
Mr Rodney Stephen Adler	6,348,014	1.49%
	<u>165,323,605</u>	<u>38.72%</u>

WRG also has 49,038,885 options on issue. The details of the outstanding options are:

Grant Date	Number of Options	Exercise Price	Expiry Date
30/06/2009	585,000	\$0.400	30/06/2014
4/11/2010	7,157,143	\$0.420	4/04/2015
8/11/2010	5,157,140	\$0.420	5/11/2015
22/12/2011	12,000,000	\$0.100	22/12/2014
23/03/2012	7,764,600	\$0.300	23/03/2017
23/05/2012	2,000,002	\$0.120	23/05/2012
31/12/2012	3,000,000	\$0.030	31/12/2015
22/01/2013	11,375,000	\$0.035	22/01/2016
Total	<u>49,038,885</u>		

Source: WRG's 2013 Annual Report.

As all of the options are well out of the money, we have disregarded the existence of the options in the balance of this report.

6.4 Operating Performance

WRG's income statements for the financial years ended 31 December 2012 and 2013 were as follows:

Consolidated Statement of Comprehensive Income		
Year ended:	31-Dec-12	31-Dec-13
	Audited	Audited
	\$	\$
Revenue		
Interest income	136,388	63,909
Gain on settlement of creditors and financial liabilities	-	1,395,073
Total revenue	136,388	1,458,982
Expenses		
Consulting expenses	1,578,890	396,663
Depreciation and amortisation expenses	61,170	51,175
Share of loss of jointly controlled entities	53,023	22,507
Impairment on amount due from other related party	-	1,947,472
Impairment of intangibles - intellectual properties	-	1,837,067
Other expenses	1,516,475	367,597
Finance cost - interest expense	1,061,869	771,240
	4,271,427	5,393,721
Loss before income tax	(4,135,039)	(3,934,739)
Income tax expense	-	-
Net loss for the year	(4,135,039)	(3,934,739)

Source: WRG's 2013 Annual Report.

6.5 Financial Position

WRG's net assets as at 31 December 2012 and 31 December 2013 were as follows:

Consolidated Statement of Financial Position		
Year ended:	31-Dec-12	31-Dec-13
	Audited	Audited
	\$	\$
Current assets		
Cash and cash equivalents	20,459	30,241
Trade and other receivables	1,819,805	-
Prepayments	64,156	28,605
Total current assets	1,904,420	58,846
Non current assets		
Equity accounted investments	20,977	-
Plant and equipment	62,780	-
Intangible assets	1,594,784	-
Total non current assets	1,678,541	-
Total assets	3,582,961	58,846
Current liabilities		
Trade and other payables	2,397,864	700,412
Financial liabilities	3,309,090	4,655,688
Total current liabilities	5,706,954	5,356,100
Total liabilities	5,706,954	5,356,100
Net assets/(liabilities)	(2,123,993)	(5,297,254)
Equity/(shareholders' deficit)		
Contributed equity	65,849,929	66,251,951
Reserves	1,693,427	4,280,925
Accumulated losses	(69,667,349)	(75,830,130)
Total equity/(shareholders' deficit)	(2,123,993)	(5,297,254)

Source: WRG's 2013 Annual Report.

6.6 Cash Flow Statements

WRG's cash flow statements for the financial years ended 31 December 2012 and 2013 were as follows:

Consolidated Statement of Cash Flows		
Year ended:	31-Dec-12	31-Dec-13
	Audited	Audited
	\$	\$
Cash flows from operating activities		
Payments to suppliers and employees	(2,128,151)	(504,246)
Interest received	3,184	34
Interest and other costs of finance paid	(40,032)	(1,418)
Net cash used in operating activities	<u>(2,164,999)</u>	<u>(505,630)</u>
Cash flows from investing activities		
Loans to other entities	(1,644,016)	-
Net cash used in investing activities	<u>(1,644,016)</u>	<u>-</u>
Cash flows from financing activities		
Proceeds from issue of shares	3,568,872	-
Proceeds from borrowings	557,919	511,012
Repayment of borrowings	(432,261)	-
Share issue transaction costs	(210,445)	-
Net cash from financing activities	<u>3,484,085</u>	<u>511,012</u>
Net increase/(decrease) in cash and cash equivalents	<u>(324,930)</u>	<u>5,382</u>
Cash and cash equivalents at the beginning of the period	325,423	20,459
Exchange rate adjustments	19,966	4,400
Cash and cash equivalents at the end of the period	<u><u>20,459</u></u>	<u><u>30,241</u></u>

Source: WRG's 2013 Annual Report.

7. Valuation of WRG Before the Proposed Transaction

7.1 Value Definition

DMR Corporate's valuation of WRG has been made on the basis of fair market value, defined as the price that could be realized in an open market over a reasonable period of time given the current market conditions and currently available information, assuming that potential buyers have full information, in a transaction between a willing but not anxious seller and a willing but not anxious buyer acting at arm's length.

7.2 Valuation Methodologies

In selecting appropriate valuation methodologies, we considered the applicability of a range of generally accepted valuation methodologies. These included:

- share price history;
- capitalisation of future maintainable earnings;
- net present value of future cash flows;
- asset based methods;
- comparable market transactions; and
- alternate acquirer.

Each of the above methodologies is described and where possible applied in the balance of this Section.

7.3 Share Price History

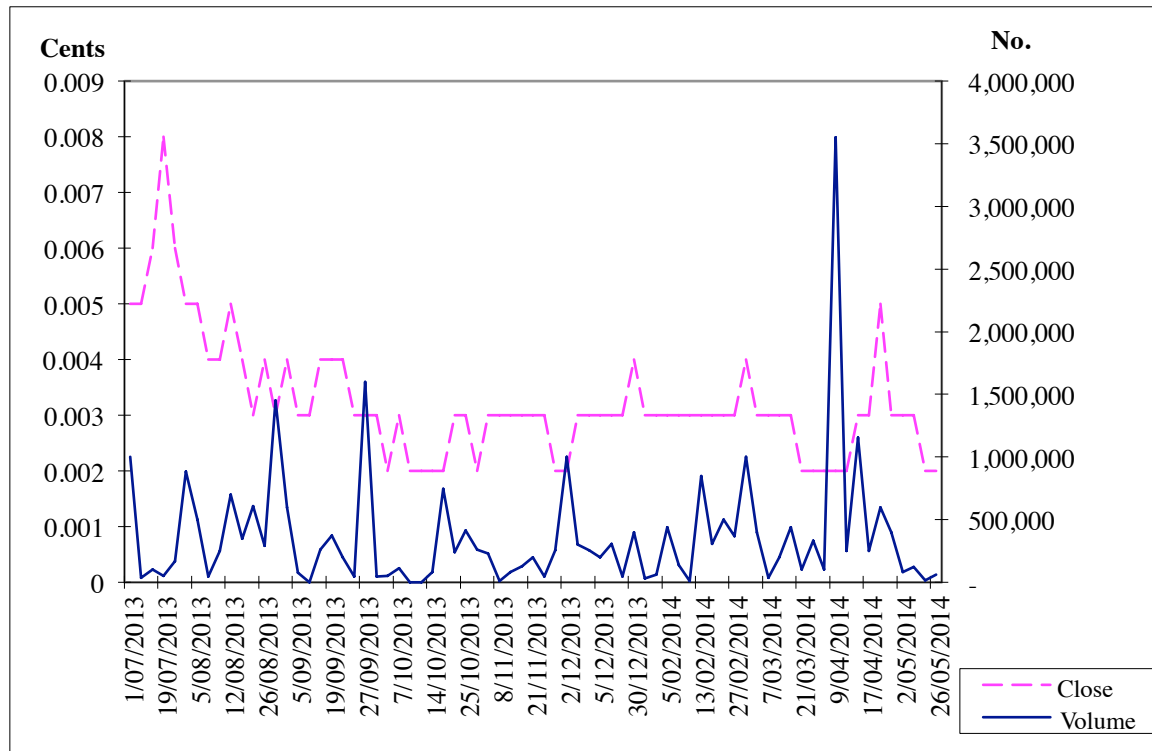
The share price history valuation methodology values a company based on the past trading in its shares. We normally analyse the share prices up to a date immediately prior to the date when a takeover, merger or other significant transaction is announced to remove any price speculation or price escalations that may have occurred subsequent to the announcement of the proposed transaction. In this instance trading in WRG shares was suspended on 1 April 2014 and details of the re-finance proposal were announced on 8 April 2014, with trading resuming on 9 April 2014. The WRG shares were again suspended from trading on 28 May 2014 ahead of an announcement that WRG has accepted the proposed funding offer from Dilato, subject to shareholder approval.

A table of the volume and value of the WRG shares traded in the period from 1 July 2013 to 28 May 2014 is as follows:

Month	Share Price			Volume	Value
	High	Low	Average		
	\$	\$	\$		\$
2013					
July	0.008	0.005	0.005	2,241,776	11,629
August	0.005	0.003	0.004	2,745,500	11,575
September	0.004	0.003	0.003	4,658,016	15,412
October	0.003	0.002	0.002	1,904,217	4,575
November	0.003	0.002	0.003	948,378	2,590
December	0.004	0.002	0.003	2,507,859	6,921
2014					
January	0.003	0.003	0.003	30,000	90
February	0.003	0.002	0.003	2,678,004	8,034
March	0.004	0.002	0.003	2,610,925	8,299
April	0.005	0.002	0.003	5,804,429	14,813
May 1-28	0.004	0.002	0.003	680,166	1,961
				<u>26,809,270</u>	<u>85,901</u>

Source: Commonwealth Securities and DMR Corporate

A graph of the volume and closing prices of the WRG shares traded in the period from 1 July 2013 to 28 May 2014 is as follows:



We have analysed the share prices for the period from 1 July 2013 to 28 May 2014 and noted the following:

- over the approximate 11-month period there have been 26,809,270 shares traded and this represents approximately 6.3% of the Company's current issued capital (426,992,733 shares). On this basis we consider that the trading in the Company's shares is illiquid.
- in this period the shares traded in a range of \$0.002 (26 May 2014) to \$0.008 (19 July 2013).
- the 30 day volume weighted average price ("VWAP") of the shares up to 1 April 2014 (the date of the initial announcement of the proposed re-financing) was \$0.003 per share on a volume of 2,610,925 shares and the 60 day VWAP was also \$0.003 based on a volume of 5,288,929 shares.
- between the initial announcement of the potential refinancing and the announcement that WRG has accepted the Dilato refinancing the WRG shares have continued to trade at a VWAP of \$0.003 based on a volume of 6,484,595 shares.

Based on the above analysis we consider that the WRG shares are valued at approximately \$0.003 per share, on a minority interest basis (i.e. excluding a premium for control).

7.4 Capitalization of Future Maintainable Earnings

This methodology involves capitalizing the estimated future maintainable earnings of a business at a multiple which reflects the risks of the business and its ability to earn future profits.

There are different definitions of earnings to which a multiple can be applied. The traditional method is to use net profit after tax – Price Earnings or PE. Another common method is to use Earnings Before Interest and Tax, or EBIT. One advantage of using EBIT is that it enables a valuation to be determined which is independent of the financing and tax structure of the business. Different owners of the same business may have different funding strategies and these strategies should not alter the fundamental value of the business.

Other variations to EBIT include ‘Earnings Before Interest, Tax, Depreciation and Amortization’ – EBITDA and ‘Earnings Before Interest, Tax, and Amortization’ – EBITA.

As WRG does not have an operating business generating profits, we consider that the capitalization of future maintainable earnings valuation methodology is not an appropriate methodology to use to value WRG.

7.5 Net Present Value of Future Cash Flows

An analysis of the net present value of the projected cash flows of a business (or discounted cash flow technique) is based on the premise that the value of the business is the net present value of its future cash flows. This methodology requires an analysis of future cash flows, the capital structure, the costs of capital and assessment of the residual value of the business remaining at the end of the forecast period.

As WRG does not have an operating business generating cash flows, we consider that the capitalisation of future cash flows is not an appropriate methodology to use to value WRG.

7.6 Asset Based Methods

These methodologies are based on the realisable value of a company’s identifiable net assets. Asset based valuation methodologies including:

(a) Net Assets

The net asset valuation methodology involves deriving the value of a company or business by reference to the value of its assets. This methodology is likely to be appropriate for a business whose value derives mainly from the underlying value of its assets rather than its earnings, such as property holding companies and investment businesses. The net assets on a going concern basis do not take account of realisation costs.

(b) Orderly Realisation of Assets

The orderly realisation of assets method estimates the fair market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs.

(c) Liquidation of Assets

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes that the assets are sold in a short time frame.

Net Assets

As can be seen from Section 6.5, as at 31 December 2013 WRG’s total assets amounted to \$58,846 comprising of cash balances and prepayments. However WRG also had total liabilities of \$5,356,100, resulting in negative net assets of \$5,297,254.

Based on the net assets methodology the value of WRG and its shares is \$nil.

Orderly Realisation of Net Assets

In an orderly realisation shareholders would be left with a listed corporate shell, which could be used to acquire a new business. In our experience listed shells in the current market have a value between \$300,000 to \$500,000, however these values are for relatively 'clean' shells that have no or limited liabilities, whereas WRG has net liabilities in excess of \$5 million and these would need to be dealt with before a value of \$300,000 to \$500,000 could be realised. As WRG has minimal assets available to satisfy the creditors, typically in such a situation the creditors would be satisfied by converting the debts into shares. Any such debt conversion would significantly dilute the existing shareholders and their proportional share of the value of the shell.

Given the fact that WRG had negative net assets of \$5,297,254 as at 31 December 2013, in our opinion the value of the listed shell is insufficient to produce a positive value on an asset based valuation.

7.7 Comparable Market Transactions

WRG is basically a listed shell and we do not consider that this valuation methodology can be applied in valuing WRG beyond estimating the value of a listed shell, which has been taken into account in Section 7.6 above.

7.8 Alternate Acquirer

The value that an alternative offeror may be prepared to pay to acquire WRG is a relevant valuation methodology to be considered.

In this instance we are not aware of any alternative offer for WRG and we can see no reason as to why an offer would be initiated prior to the Proposed Transaction taking place.

7.9 Conclusion

The share valuation methodology indicated that the value per WRG share is approximately \$0.003. As WRG has 426,992,733 shares on issue, this methodology suggests that (on a minority interest basis), the equity value of WRG is approximately \$1.3 million (426,992,733 x \$0.003). As can be seen from Section 7.3, the total value of the shares traded on which the value of \$0.003 per share is based, is very low. In our opinion a shell with virtually no assets, liabilities of approximately \$5.3 million and no operating business does not have an equity value of \$1.3 million.

In Section 7.6 above we concluded that, given the fact that WRG had negative net assets of \$5,297,254 as at 31 December 2013, in our opinion the value of the listed shell is insufficient to produce a positive value on an asset based valuation. This supports the conclusion that WRG has a nil value.

Despite the above conclusion, shareholders are often left with a residual value after the shell is restructured to eliminate the debts. The restructure usually takes the form of a debt for equity swap. We are not aware of any relevant empirical evidence of the share price at which any debt for equity swap may be expected to take place, however we would expect this to be no higher (and probably significantly below) the level at which the shares are currently trading.

Assuming that the existing debts were converted to equity at a 20% discount to the current share price of \$0.003 per share, this would result in an issue of approximately 2.2 billion shares, resulting in total shares on issue of approximately 2.6 billion, with the existing shareholders holding approximately 16% of the shares on issue.

In Section 7.6 we expressed the opinion that listed shells in the current market have a value between \$300,000 to \$500,000. This value would emerge after the existing debts are capitalised. As the existing shareholders would hold approximately 16% of the issued shares, these would be valued in a range of \$50,000 to \$80,000 (\$300,000 x 16% and \$500,000 x 16% respectively).

In our opinion the existing shareholders' interests in WRG have a value in a range of \$nil up to a maximum value of \$80,000.

8. Valuation of WRG After the Proposed Transaction

8.1 Value Definition

We have used the same definition of value in this Section as was applied in Section 7.1 above when we assessed the value of WRG before the Proposed Transaction.

8.2 Valuation Methodologies

In selecting appropriate valuation methodologies, we considered the applicability of the same generally accepted valuation methodologies as detailed in Section 7.2 above and we determined that the appropriate methodology to use to value WRG after the Proposed Transaction was the net assets on a going concern basis.

8.3 Net Assets on a Going Concern Basis

As a result of the restructure WRG will eliminate the majority of its liabilities and will have facilities available to it to meet its immediate cash flow requirements. Set out below is a Pro-forma statement of net assets of WRG, which has been based on unaudited management accounts as at 31 May 2014:

	31-Dec-13	31-May-14	Notes	Pro-Forma
	Audited	Management		
	\$	\$		\$
Current assets				
Cash and cash equivalents	30,241	34,533		34,533
Prepayments	28,605	16,135		16,135
Total current assets	<u>58,846</u>	<u>50,668</u>		<u>50,668</u>
Total assets	<u>58,846</u>	<u>50,668</u>		<u>50,668</u>
Current liabilities				
Trade and other payables	700,412	704,765	1	275,720
Financial liabilities	4,655,688	4,959,143	2	-
Total current liabilities	<u>5,356,100</u>	<u>5,663,908</u>		<u>275,720</u>
Total liabilities	<u>5,356,100</u>	<u>5,663,908</u>		<u>275,720</u>
Net assets/(liabilities)	<u>(5,297,254)</u>	<u>(5,613,240)</u>		<u>(225,052)</u>

Note 1: The reduction in trade and other payables reflects the issue of shares in satisfaction of certain liabilities, as dealt with in Resolutions 10 to 13.

Note 2: All financial liabilities relate to Dilato. These liabilities will either be forgiven by Dilato or will be satisfied by the issue of shares pursuant to Resolutions 5 to 9.

Following the completion of the Proposed Transaction WRG will continue to have negative net assets, however its liabilities will be reduced by approximately \$5.4 million. In addition the value of the corporate shell referred to in Section 7.6 above stills exists. As such the value of WRG following the Proposed Transaction can be derived from the following table:

	Low	High
	\$	\$
Net assets/(liabilities)	(225,052)	(225,052)
Value of Listed Shell	300,000	500,000
WRG Equity Value	<u>74,948</u>	<u>274,948</u>

In our opinion WRG may be valued in a range of \$75,000 to \$275,000 after the Proposed Transaction has been approved by the Non-Associated Shareholders.

9. Control Premium

A control premium represents the difference between the price that would have to be paid for a share to which a controlling interest attaches and the price at which a share which does not carry with it control of the company could be acquired. Control premiums are normally in a range of 25% to 30%¹ above the value of a minority share. The actual control premium paid is transaction specific and depends on a range of factors, such the level of synergies available to the purchaser, the level of competition for the assets and strategic importance of the assets. In this instance there are no synergies to be gained by Dilato from an acquisition of WRG.

If the WRG shareholders approve the Proposed Transaction, then Dilato may control up to 79.47% of WRG’s voting power. Whilst WRG will not have any business, Dilato will control WRG and therefore Dilato will have the ability to control the process of finding a new business activity and the negotiations of the terms under which such an activity will be acquired.

10. Assessment as to Fairness

In Section 5 we defined fairness as follows:

“the Proposed Transaction is “fair” if the value of the Non-Associated Shareholders’ interests after the Proposed Transaction is equal to or greater than the value of their interests before the Proposed Transaction”.

In Section 7 above we assessed the value of the existing shareholders’ interests in WRG before the Proposed Transaction to be in a range of \$nil up to a maximum value of \$80,000.

In Section 8 we assessed the value of WRG following the Proposed Transaction to be in a range of \$75,000 to \$275,000, however the existing shareholders will be minority shareholders as they will only hold 10.24% of the voting power. The residual value of the WRG shares held by the Non-Associated Shareholders on a minority interest basis after the Proposed Transaction can be assessed as follows:

	Low	High
	\$	\$
WRG Equity Value - Control Basis	75,000	275,000
Minority discount	30%	25%
WRG Equity Value - Minority Basis	52,500	206,250
Non-Associated Shareholders' Interest	10.24%	10.24%
Equity Value held by Non-Associated Shareholders	5,375	21,118

¹ RSM Bird Cameron Control Premium Study –2013.

As the value of the Non-Associated Shareholders' minority interests after the Proposed Transaction (\$5,000 to \$21,000) is within the range of the value of their controlling interests before the Proposed Transaction (\$nil to \$80,000), we have concluded that the Proposed Transaction is **fair**.

11. Other Considerations

Prior to deciding whether to approve or reject the Proposed Transaction the shareholders should consider the following factors:

- In Section 10 above we concluded that the Proposed Transaction is fair. As it is fair it is also deemed to be reasonable.
- Whilst the Proposed Transaction will not result in WRG having positive net assets, liabilities with a book value of approximately \$5.4 million will be removed from WRG's balance sheet.
- WRG will have up to \$2 million available for working capital purposes and this should provide WRG with an opportunity to restore some shareholder value.
- Dilato will hold in excess of 79% of WRG's voting power and it may increase its voting power further if the Series I and/or J Convertible Notes are converted into WRG shares. This level of voting power will give Dilato complete control over WRG. In our experience companies where one shareholder has this level of voting power are not an attractive investment and this will weigh heavily on the WRG share price until such time as Dilato's interest is reduced to a substantially lower level.
- WRG announced on 30 May 2014 that it has entered into a technical services agreement with Somnio Global LLC ("Somnio"). As part of this agreement WRG is to be granted a worldwide exclusive licence to use an Ozone Generator currently under development by Somnio in water desalination technologies. The Proposed Transaction may provide WRG with the funding necessary to progress the development of this business opportunity.
- The shareholders will lose their collective control of WRG and their interest in WRG will be severely diluted.
- If shareholders do not approve the Proposed Transaction WRG may be placed in administration in order to avoid insolvent trading. If this were to occur an Administrator would need to find an investor willing to fund a reconstruction of WRG, otherwise WRG may be placed in liquidation. Even if an Administrator could fund a restructuring of WRG, this is likely to significantly delay the restructure of WRG and we do not believe that the ultimate outcome is likely to be significantly better than that offered by the Proposed Transaction.

After reviewing the above significant factors we consider that **the Proposed Transaction is fair and reasonable**.

12. Financial Services Guide

12.1 Financial Services Guide

This Financial Services Guide provides information to assist retail and wholesale investors in making a decision as to their use of the general financial product advice included in the above report.

12.2 DMR Corporate

DMR Corporate holds Australian Financial Services Licence No. 222050, authorizing it to provide general financial product advice in respect of securities to retail and wholesale investors.

12.3 Financial Services Offered by DMR Corporate

DMR Corporate prepares reports commissioned by a company or other entity (“Entity”). The reports prepared by DMR Corporate are provided by the Entity to its members.

All reports prepared by DMR Corporate include a description of the circumstances of the engagement and of DMR Corporate’s independence of the Entity commissioning the report and other parties to the transactions.

DMR Corporate does not accept instructions from retail investors. DMR Corporate provides no financial services directly to retail investors and receives no remuneration from retail investors for financial services. DMR Corporate does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice to retail investors.

12.4 General Financial Product Advice

In the reports, DMR Corporate provides general financial product advice. This advice does not take into account the personal objectives, financial situation or needs of individual retail investors.

Investors should consider the appropriateness of a report having regard to their own objectives, financial situation and needs before acting on the advice in a report. Where the advice relates to the acquisition or possible acquisition of a financial product, an investor should also obtain a product disclosure statement relating to the financial product and consider that statement before making any decision about whether to acquire the financial product.

12.5 Independence

At the date of this report, none of DMR Corporate, Derek M Ryan nor Paul Lom has any interest in the outcome of the Proposed Transaction, nor any relationship with WRG, Dilato or their associates.

DMR Corporate and its related entities do not have any shareholding in or other relationship with WRG that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the proposed acquisition.

DMR Corporate had no part in the formulation of the Proposed Transaction. Its only role has been the preparation of this report.

DMR Corporate considers itself to be independent in terms of Regulatory Guide 112 issued by ASIC on 30 March 2011.

12.6 Remuneration

DMR Corporate is entitled to receive a fee of approximately \$22,000 for the preparation of this report. With the exception of the above, DMR Corporate will not receive any other benefits, whether directly or indirectly, for or in connection with the making of this report.

Except for the fees referred to above, neither DMR Corporate, nor any of its directors, employees or associated entities receive any fees or other benefits, directly or indirectly, for or in connection with the provision of any report.

12.7 Complaints Process

As the holder of an Australian Financial Services Licence, DMR Corporate is required to have suitable compensation arrangements in place. In order to satisfy this requirement DMR Corporate holds a professional indemnity insurance policy that is compliant with the requirements of Section 912B of the Act.

DMR Corporate is also required to have a system for handling complaints from persons to whom DMR Corporate provides financial services. All complaints must be in writing and sent to DMR Corporate at the above address.

DMR Corporate will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited – GPO Box 3, Melbourne Vic 3000.

Yours faithfully

DMR Corporate Pty Ltd



Paul Lom
Director



Derek Ryan
Director

Sources of Information

The following sources of information have been utilised and relied upon, without independent verification, in the course of preparing this report:

Publicly Available Information

- The draft Notice of General Meeting and the Explanatory Memorandum which this report accompanies;
- Audited financial statements of WRG for the financial year ended 31 December 2013;
- Listing of WRG's top 20 shareholders as at 2 June 2014;
- WRG's announcements to the ASX since 1 July 2012;

DMR Corporate has assumed that the publicly available information detailed above was accurate and not misleading.

Other Information

- WRG share price and volume history;
- Dilato's Offer of Finance dated 27 May 2014;
- Somnio's proposed technical services agreement dated 27 May 2014;
- Series H Convertible Deed Poll dated 29 June 2010;
- Deed of Assignment between Deutsche Bank AG and Dilato dated 14 June 2013;
- Loan Agreement between WRG and Dilato dated 22 December 2011;
- WRG's management accounts for the five months ended 31 May 2014; and
- discussion with a director of WRG;

Declarations, Qualifications and Consents

1. Declarations

This report has been prepared at the request of the Directors of WRG pursuant to Section 611 of the Act to accompany the notice of meeting of shareholders to approve the Proposed Transaction. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Proposed Transaction is fair and reasonable.

This report has also been prepared in accordance with the Accounting Professional and Ethical Standards Board professional standard APES 225 – Valuation Services.

The procedures that we performed and the enquiries that we made in the course of the preparation of this report do not include verification work nor constitute an audit in accordance with Australian Auditing Standards.

2. Qualifications

Mr Derek M Ryan and Mr Paul Lom, directors of DMR Corporate prepared this report. They have been responsible for the preparation of many expert reports and are involved in the provision of advice in respect of valuations, takeovers and capital reconstructions and reporting on all aspects thereof.

Mr Ryan has had over 40 years experience in the accounting profession and he is a Fellow of the Institute of Chartered Accountants in Australia. He has been responsible for the preparation of many expert reports and is involved in the provision of advice in respect of valuations, takeovers and capital reconstructions and reporting on all aspects thereof.

Mr Lom is a Fellow of the Institute of Chartered Accountants in Australia and a Registered Company Auditor with more than 35 years experience in the accounting profession. He was a partner of KPMG and Touche Ross between 1989 and 1996, specialising in audit. He has extensive experience in business acquisitions, business valuations and privatisations in Australia and Europe.

3. Consent

DMR Corporate consents to the inclusion of this report in the form and context in which it is included in the Explanatory Memorandum.