

# 2014 | PHOSLOCK Annual Report

Innovative water technologies for clean & healthy water

[www.phoslock.com.au](http://www.phoslock.com.au)

# Directory

## Directors

### Laurence Freedman AM

Chairman

### Robert Schuitema

Managing Director

### The Hon. Pam Allan

Non Executive Director

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## Offices

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## Management

### Robert Schuitema

Chief Financial Officer & Company Secretary

### Nigel Traill

General Manager - Europe, North & South America

### Andrew Winks

General Manager - Operations

### Dr Sarah Groves

General Manager - Technical

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## Share Register

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**ASX Listing Code:** PHK

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## Auditors

### W.W. Vick & Co

Suite 503, Level 5, 379-383 Pitt Street

Sydney NSW 2000

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# Chairman's Report

The Phoslock business is now in its ninth year of development. Demand for this unique product CONTINUES TO GROW. Poor water quality, caused predominantly by harmful algal blooms, is a major issue worldwide and the problem is predicted to intensify in coming years. Legislation introduced in the U.S. and Europe requires water managers to implement measures to reduce phosphorus levels in waterways under their control. Doing nothing is no longer an option.

Regretfully the lead time between the identification of a problem and the implementation of measures to treat the problem is often lengthy. The process usually involves a number of steps, including not only the evaluation of treatment options and strategies, but dialogue

and consensus building between lake authorities, local and central government and the securing of funding for the project.

Phoslock currently has a pipeline of more than 40 projects, each greater than \$50,000 and some very significantly higher. These total more than 20,000 tonnes, with the contract and sales process well underway in many cases. The pipeline includes four projects in Australia, 16 in Europe/UK, 13 in North America, four in Asia and three in South America. In addition we have on hand nine very large projects with application sizes between 1,000 to 20,000 tonnes. We are currently awaiting decisions on several large projects, some of which are on short timetables.

This past year we were involved

in a record number of tenders. These are aided by more than 140 water body case study applications, which ably demonstrate our proven track record. Tender processes are typically through government-type agencies, are transparent and include a full technological evaluation and long-term benefits to the water body, as opposed to a comparison based solely on the pricing of products. Regrettably, in the post-GFC environment, many such authorities still continue to have funding difficulties. However, a well-run tender process with full scientific evaluation should ultimately come down to proven performance, regardless of price.

The Company's North American Drinking Water certification is a very important status for us in

both the drinking water and non-drinking water sectors. The Water Quality Association (WQA) is an accredited certification agency for a number of water treatment products across the United States and Canada and also recognised in a number of other countries.

The certification awarded to Phoslock provides assurances to customers that treating their water bodies with the correct dosage of Phoslock is safe for human consumption. WQA's Gold Seal is displayed on all Phoslock labels to show that it is a WQA Tested and Certified Product.

Having set as my top priority the refocussing of the Company from its previous research and development orientation to a strictly commercial one since joining the Board, the challenge for the Company now is to accelerate the level of sales conversion. Success with completed projects and substantial and growing scientific evidence is the ultimate

marketing tool. I am confident that, as sales increase, the period from tender to sale will decrease.

I would like to convey my gratitude to Rob Schuitema who continues to be a most diligent and energetic Managing Director and to Pam Allen for her valued insights. It is a pleasure to have a harmonious board of directors with a common aim.

In addition, all members of the executive team deserve the strongest appreciation from all of us for their most efficient and effective management of the business.

I would like to take this opportunity to thank our shareholders for your loyalty and faith in the Company.

I look forward to announcing solid commercial progress in the year ahead.

Yours sincerely,

**Laurence Freedman AM**  
Chairman

**“Phoslock currently has a pipeline of more than 40 projects, each greater than \$50,000 and some very significantly higher.”**

# Managing Director's Report

## The Company's performance for FY2013/14 is summarised as follows:

**Financial Performance:** Revenue was 12% lower for the year. Sales momentum continues to build, however the Company is yet to achieve a level of sales which reflects the potential of the product. Earnings before Interest, Tax, Depreciation & Amortisation and Impairments (EBITDA) improved by 29%. Operating expenses were approx. \$400,000 lower than the previous financial year.

**Sales & Sales Pipeline:** The Company and its licensees completed 22 applications during the year. The company has a sales pipeline of 40 separate projects (each greater than \$50,000) in our key markets - 4 projects in Australia, 16 in Europe/UK, 13 in North America, 4 in Asia and 3 in Central and Southern America. The Company is also working on 9 very large projects with application sizes

between 1,000 to 20,000 plus ton range (2013: 4 projects).

**Sales Coverage:** Sales coverage remains strong in Australasia, Europe and UK, Canada and the United States via its licensee, SePRO Corporation. The Company is pursuing a number of large one off applications in central & south America and selected Asian countries.

**Manufacturing of Phoslock:** The manufacturing joint venture in Kunming had an initial life of 10 years. By mutual agreement the JV was not extended beyond December, 2013. The Company put in place an alternative manufacturing arrangement with a party PWS has dealt with for a number of years, in central China. Production was quick to meet QA/QC standards and has been certified by external auditors to maintain our NSF 60 certification.

**Employees:** A team of experienced professionals specialising in sales,

and management of licensees, along with highly specialised technical areas. Phoslock has offices in Australia, China, Germany and UK and has on the ground licensees in eight other countries.

**New Product Development:** The Company continues to work both internally and with external partners on both additional applications for the use of Phoslock and the development of new water treatment products.

## Financial Performance for FY 2013/14

The financial performance for FY 2013/14 saw Net Profit before Tax before Impairments of negative \$1.57 million versus negative \$2.06 million for FY2012/13. Revenues for FY 2012/13 were down 12% to \$1.4 million. EBITDA was an improvement of 29% to negative \$1.2 million. Operating expenses, year on year, were 17% lower with large reductions in employee, occupancy, marketing and administration costs.

The Company's focus is to convert its sales pipeline into sales and growing its revenues to a level where the Company is cash flow positive then profitable.

## Progression of the Phoslock Business

The Phoslock business is now in its ninth year. The demand for this unique product has never been stronger. Poor water quality including harmful algal blooms are a major issue worldwide and the problem is predicted to intensify in coming years due to the effects of climate change. Legislation introduced in recent years in the U.S. and Europe requires water managers to implement measures to reduce phosphorus levels in waterways under their control and therefore doing nothing is no longer an option.

The lead time between the identification of a problem and the implementation of measures to treat the problem can be long. It frequently involves a number of steps, including the evaluation of treatment options and strategies, dialogue and consensus building between lake authorities, local and central government and the securing of funding for the project. In many instances, well-funded dedicated lake authorities or oversight committees are formed to tackle



APPLICATION TO STRATHCLYDE LOCH, SCOTLAND ▸

the issues of both improving water quality in their water bodies and stopping new nutrients from entering the water body.

PWS currently has a pipeline of 40 projects (each greater than \$50,000) totalling more than 20,000 tons, with the sales process well underway in each case. The pipeline includes 4 projects in Australia, 16 in Europe/UK, 13 in North America, 4 in Asia and 3 in Central and Southern America. The Company is also working on 9 very large projects with application sizes between 1,000 to 20,000 plus ton range

The Company was involved in a record number of tenders this year for projects and had a very high success rate. Tender processes are usually run by a government type

agency, very transparent and well run processes where there is usually a full evaluation of technologies and long term benefits to the water body as opposed to a comparison based solely on the pricing of products. Phoslock has over 140 larger water body case study applications to demonstrate a proven track record. Over 20 peer reviewed technical papers written by leading water researchers have been published on Phoslock in leading journals.

Each tender process unearths a new technology which has a small track record and makes a number of claims which appear to have little science to back up their assertions. A well run tender process with full scientific evaluation will ultimately discard unproven technologies, regardless of price.



### International Certification

Phoslock's North American Drinking Water certification is an important status for both the drinking water and non-drinking water sectors. The Water Quality Association (WQA) is an accredited certification agency for a number of water treatment products in North America, including North American Drinking Water (NSF/ANSI Standard 60), the accreditation which Phoslock received. WQA is accredited by the American National Standards Association (ANSI) and the Standards Council of Canada (SCC). The WQA certification provides assurances and scientific approvals regarding safety and health for consumers.

The certification awarded to Phoslock provides assurances that treating water bodies with Phoslock is safe for human consumption, subject to maximum dose rates. WQA's Gold Seal will now be applied to Phoslock labels to show that the product is a WQA Tested and Certified Product.

The challenge for the Company is to accelerate the level of sales conversion and at the same time expand the project pipeline. Success with completed projects is the ultimate marketing tool and the Company is confident that as sales increase the period of the sales cycle will decrease.

### The Company's major sales regions are reviewed below. Europe & United Kingdom

The European and U.K. region accounted for 36% (2013: 39%) of the Company's total sales during the financial year. During the past twelve months, sales were recorded in Germany, the U.K, Finland, the Netherlands and Italy. Nine applications were completed, with the largest of these taking place in the United Kingdom.

The highlight of the year for Phoslock Europe was the application of Phoslock to Strathclyde Loch in Scotland, venue for the triathlon at the Glasgow 2014 Commonwealth Games in July, 2014. The first application of Phoslock was in February, 2014, followed by a planned top-up dose in late June. The treatments resulted in excellent water quality and Games organizers reported in the media to be delighted with the results.

### United States and Canada

The North American region accounted for 51% (2013: 53%) of the Company's total sales during the financial year. This was the third year of sales in the United States market through our licensee, SePRO Corporation. SePRO focuses on developing, manufacturing and marketing value-added products for speciality applications in niche markets. SePRO has nationwide coverage through its authorised distributor network and preferred applicator group. Phoslock is a product in SePRO's Aquatics group.

SePRO continues to develop national awareness of Phoslock via trade shows, conferences, direct marketing and via its authorised applicator network. The continued national awareness campaign is seeing good interest generated with target customers throughout the USA.

The new sales coverage model for Canada, with the Phoslock Europe team managing coverage of Canadian customers and marketing, has resulted in a number of medium sized applications and progress on large lake applications.

### Australia

Australia accounted for 7% (2013: 6%) of the Company's total sales during the financial year. During the current financial year the Company



completed 5 applications, including several which are now treated on an annual basis. The company is working on a several projects around Australia which include rivers, lakes and wetlands. These projects range from small to over 100 tons.

## Rest of the World

PWS has licensees in Brazil, China, Hong Kong and Korea. All four licensees are working on various projects with technical input from PWS. PWS and Phoslock Europe are also working on projects in non licensed countries including Singapore and Mexico. The projects are very large in size however the sales process in Asia is informal in process.

## Production

The manufacturing joint venture in Kunming had an initial life of 10 years. By mutual agreement the JV was not extended beyond December, 2013. The Company put in place an alternative manufacturing arrangement with a party PWS has dealt with for a number of years, in central China. Production was quick to meet QA/QC standards and has been certified by external auditors to maintain our NSF 60 certification.

## Technical

The focus of our technical group has been expanded from educating new customers on technical issues relating to Phoslock to playing a vital part in



CROCODILE FARM APPLICATION ▾

our "one stop shop" sales process. Our technical group usually provides a detailed technical analysis of the water bodies including internal and external phosphorus loadings as part of the sales dialogue. This is important in determining dose rates but also modelling the benefits that a Phoslock application can achieve in the short term and strategies to maintain these benefits in the future. Pre and post application monitoring is very important as it not only provides the client with a detailed analysis of the benefits of a Phoslock application, but also greatly assists the Company in marketing to future customers.

The technical group has worked on a number of R&D projects to improve the performance of Phoslock, particularly in highly polluted water bodies.

## Shareholders

The Company has a number of long standing shareholders who have remained loyal to the Company as it has progressed through the commercialisation process and provided additional equity at crucial times. The PWS Directors and executive believe that the Company has immense potential in a very relevant environmental sector with the ability to deliver significant future benefits to shareholders.

I would like to thank our hard working team of PWS Directors and executives for their significant contribution during the year.

**Robert Schuitema**  
Managing Director

# Director's Report

Your directors present their report on the Company and its controlled entities ("the consolidated entity" or "group") for the financial year ended 30th June, 2014.

## Directors

The names of directors in office at anytime during the year or since the end of the year are:

- **Mr Laurence Freedman AM**
- **Mr Robert Schuitema**
- **The Hon. Pam Allan**

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

## Company Secretary

- **Mr Robert Schuitema** – Chartered Accountant, Bachelor of Commerce & Administration, Member of NZ Investment Analysts.

## Principal Activities

The principal activities of the consolidated entity during the financial year was the manufacture, marketing and sales of Phoslock.

The consolidated entity is in the process of de-registering its majority owned foreign subsidiary

in China. There were no other significant changes in the nature of the consolidated entities principal activities during the financial year.

## Operating Results

The consolidated loss of the consolidated entity after providing for income tax and non-controlling interests amounted to (\$1,575,045) (2013:(\$2,060,431)). Revenue decreased by 12% from \$1,629,950 (2013) to \$1,414,491. Earnings before Interest, Tax & Depreciation for 2014 was (\$1,248,362) versus (\$1,754,010) for 2013.

The breakdown of the 2014 net loss by first half and second half was:

6 months to 31 December 2013: (\$894,027) 31 December 2012 (\$992,872)

6 months to 30 June 2014: (\$681,018) 30 June 2013 (\$1,067,559)

The performance of the company for 2014 was an improvement on 2013. The Group identified areas for efficiency which resulted in the cessation of the in-house manufacturing facility replaced by a toll manufacturer and has expended significant resources to

work on a number of large long term projects, the benefits of which have not been realised.

## Dividends Paid or Recommended

No dividends have been paid or declared for payment in relation to the financial year ended 30 June 2014 (2013:\$Nil).

## Review of Operations

Revenues recorded for the year of \$1,414,491 represented a 12% decrease over the prior year. The major sales areas were Europe, North America and Australia along with access to Australian Government research and development tax concessions. The company continues to work on a number of large projects, which would deliver significant benefits for the shareholders.

Operating expenses (excluding depreciation and amortisation, finance, impairment of receivables) for the year decreased by 16% from \$2,173,496 (2013:\$2,585,042). Significantly, the decrease is attributed to the winding-down of the in-house manufacturing activities in China and replaced by toll manufacturing.

## PWS SALES BY REGION

% Sales for FY2012-13

NORTH AMERICA 51% ▴  
EUROPE 36% ▴  
AUSTRALIA 7% ▴  
OTHER 6% ▴



The loss for the year of the consolidated entity after providing for non-controlling interests amounted to \$1,575,045 (2013: \$2,060,431)).

Although the Company recorded a loss for the latest financial year the company believes that the outlook for the business remains positive. Revenue for FY2014 were \$1,414,491. During FY2014 the Company focused on its key markets of Australia, Europe and United Kingdom and North America. Significant marketing efforts were made for large one off projects in Asia, Central & South America.

The number of applications completed in 2014 (22) was lower than previous years (2012: 30). The applications completed during the year included the application to Strathclyde Loch, venue for Glasgow 2014 Commonwealth Games Triathlon. Approximately 25% of the projects completed in 2014 were for repeat customers.

28% of sales came from the European region, where 49 lake projects have been completed since early 2007. The company has an excellent relationship with our European partner, Bentophos.

The European team has built up a significant database of application results. This has led to a shorter selling process. A number of application case studies along with video clips can be seen on [www.phoslock.com.au](http://www.phoslock.com.au) in the Case Study section accessible from the Home Page. This maturation of the market acceptance of the technology in Europe is expected to be followed in other markets in the coming years.

Continued progress was made during the year in the development of the Phoslock business in North America, and in particular the United States. Our US licensee, SePRO Corporation, has dedicated significant resources to establish Phoslock in this market since taking over the license in 2011. Sales for 2014 included 7 projects, including milestone projects in several new states .

The company, and its licensees, are currently working on 40 separate projects (each greater than \$50,000) in our key markets (4 in Australia, 16 in Europe/UK, 4 in Asia, 13 in North America and 3 in central/south America) with sales decisions on a large number of these projects due over the next 12 months. In addition, the company is working on

9 projects with application sizes in 1,000-20,000 plus ton range (2013: 4 projects).

The key to the group's growth and development is increasing sales by converting its extensive pipeline into sales.

### Financial Position

The net liability of the consolidated entity increased to \$2,221,358 as of 30 June 2014 from a net liability of \$736,889 as of 30 June 2013. The net decrease is mainly as a result of the operating loss.

### Future Developments, Prospects and Business Strategies

To improve the consolidated entity's earnings performance and maximize shareholder value, the following initiatives are in progress:

Conversion of the current sales pipeline, particularly in Europe and the UK, United States and Canada, and Australia into near terms sales. Phoslock

- (i) continues to gain industry acceptance in these markets with post application results to date confirming the efficacy of the technology.



APPLICATION IN WINTER TO EUROPEAN LAKE ▸

- (ii) Rapid expansion in United States and Canadian markets in both lake management and stormwater catchment sectors.
- (iii) Large one off projects in Asia, Central & Southern America.
- (iv) Lower production and distribution costs in China as a result of the winding-down of in-house manufacturing activities and shifting manufacturing needs to a toll manufacturer.
- (v) Evaluation and development of other water treatment products via licensing arrangements or acquisition to add to the group's product range.

## Going concern

The consolidated entity has incurred a significant loss after income tax of \$1,575,045 (2013 \$2,060,431), for the year ended 30 June 2014 in respect of the principal activities relating

to the commercialisation of Phoslock. The consolidated entity has accumulated losses of \$34,253,628 (2013 : \$32,686,216) as at 30 June 2014. The company has net liabilities of \$2,221,358 (2013: \$736,889), \$1.3 million of Convertible Notes maturing in June 2016 and short-term secured related party loans totalling \$983,507.

Revenue for 2014 amounted to \$1,414,491 (2013: \$1,629,950), which was significantly less than management's forecast of between \$3 -5 million. The reduced sales in the current year have had an impact on the company's cashflow and operating performance.

The total liabilities of the company as at 30 June 2014 totalled \$3,242,838 is made up of trade creditors \$294,984 (2013: 263,521) employee entitlements accrued \$352,117 (2013:\$308,523), subordinated loan from Bentophos GmbH to Phoslock Europe of \$284,628 (2013: \$277,402), Convertible Notes of \$1,300,000

(2013: \$1,300,000) and short-term loans of \$983,507 (2013: \$0). At balance date, the company has cash reserves of \$248,490 (2013: \$409,760)

The above matters create a material uncertainty that may cast significant doubt as to the ability of the company to continue as a going concern and, therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The directors have prepared the financial report of the consolidated entity on the going concern basis, which assumes that the company will be able to discharge its liabilities and realise its assets in the ordinary course of business. The key underlying assumption of the directors in preparing the report on the going concern basis are:

- the consolidated entity has prepared detailed cash flow forecasts and assumptions for the period ending 12



APPLICATION TO INNER CITY PARK LAKE ▸

months after the date of this report, and the directors consider that the cash flow forecasts are reasonable in the circumstances to support the Company's continued going concern. The detailed cash flows, which reflect the detailed assumptions below, indicate a forecast cash balance of \$1,243,000 from the issuing of the financial report. This includes additional equity of up to A\$1.0m to fund the inventory build-up for larger contracts, which are forecast to occur in FY2014-15.

- the budget for the period August 2014 to September 2015 approved by the directors, which underpins the abovementioned cash flow forecasts, is dependent on sales revenue of \$6.7 million, product purchases of \$3.8 million, and operating costs of \$2.0 million, at the same gross margin as the previous year. Implicit in the sales forecast is

one major contract for 1,200 tonnes for which cash flows forecasted from October 2014 to September 2015.

- this level of revenue would generate slightly positive cash flows from operations and earnings before interest, income tax, depreciation and amortisation and an estimated consolidated net profit of \$1 million.
- the consolidated entity's \$1.3 million Convertible Notes mature on 30 June, 2016. At this stage the holder has made no decision to convert the Notes into PHK Shares or request repayment. The maturity date of the Convertible Notes is 22 months from the date of this report.

Achieving the forecast budget, including the collection of trade receivables at 30 June 2014, will ensure the company has sufficient funds from existing

cash and assets, and generated by operations in the next 12 months to meet its liabilities. Any reduction in sales or an inability to renegotiate the secured loan facilities will require the board to consider capital funding.

The Group has forecast cash operating costs of \$2.0 million. The Group has the ability to contain these costs within the limits set. The Directors will continue to monitor the Group's progress against the cash flow forecasts on a regular basis.

The company, and its licensees, are currently working on 40 separate projects (each greater than \$50,000) in our key markets (4 in Australia, 16 in Europe/UK, 4 in Asia, 13 in North America and 3 in central/south America) with sales decisions on a large number of these projects due over the next 12 months. In addition, the company is working on 9 projects with application sizes in 1,000-20,000 plus ton range (2013: 4 projects).

← The Company may undertake an equity raising in FY 2014-15 however no decision has been made regarding the amount, the timing, structure of any offering or whether it would be targeted towards existing equity holders or new equity holders (Australian or international), including strategic partners. If key items underpinning the cashflow forecast are not realised, the consolidated entity

may need to raise capital in FY2014-15. The directors consider that any capital raising activities which are required to fund operating cash flow shortages will be successful based on the company's prior capital raising initiatives.

## Significant Changes in State of Affairs

No significant changes in the state of affairs of the parent entity occurred

during the financial year. The Group is in the process of winding-down its in-house manufacturing activities in favour of outsourcing its manufacturing needs to a toll manufacturer.

## Environmental Issues

The consolidated entity's operations are subject to environmental regulation of the territories in which it operates. Details of the

# Information on Directors

<b>Mr Laurence Freedman AM</b>	<b>Chairman (Non-executive)</b>
Qualifications	CPA , MAusIMM
Experience	Board member since 20 October 2010. Mr Freedman has a long history and involvement with both public and private companies around the world. He founded the EquitiLink Group, building it into a global investment management corporation. He has held Chairman and Director roles in many international companies. He currently manages private investments in shares, property and fixed interest. He is Chairman of the Freedman Foundation, a philanthropic enterprise, in Australia.
Interest in Shares & Options	41,310,226 Ordinary Shares in Phoslock Water Solutions Ltd. 1,300 \$1,000 Convertible Notes due 30 June 2016 5,000,000 Options over Phoslock Water Solutions Ltd shares (issued on 18 July 2014)
Special Responsibilities	Mr Freedman is Chairman of the Remuneration Committee and a Member of the Audit and Compliance Committee.
<b>Mr Robert Schuitema</b>	<b>Managing Director (Executive)</b>
Qualifications	Chartered Accountant (NZ), BCA, INFNZ
Experience	Board member since April 2005. Former Managing Director of investment bank Chase Manhattan and later JP Morgan Chase responsible for the bank's mining, metals and project finance business in Australia and the Asia Pacific region. Mr Schuitema was previously a Director of ASX listed companies KalNorth Gold Mines Ltd, Electro Optical Systems Ltd and Inca Copper & Gold Ltd.
Interest in Shares & Options	7,831,662 Ordinary Shares in Phoslock Water Solutions Ltd. 10,000,000 Options over Phoslock Water Solutions Ltd shares. Exercise of Options are subject to meeting minimum sales target.
Special Responsibilities	Mr Schuitema is a Member of the Audit and Compliance Committee.
<b>The Hon. Pam Allan</b>	<b>Director (Non-executive)</b>
Qualifications	B Arts (Hons) Dip.Ed. University of Sydney, Fellow at the Graduate School of Environment, Macquarie University.
Experience	Board member since 2007. 18 years membership of the NSW parliament including 5 years as Minister for the Environment.
Interest in Shares & Options	300,000 Ordinary Shares in Phoslock Water Solutions Ltd.
Special Responsibilities	Ms Allan is a Chairman of the Audit and Compliance Committee and a member of the Remuneration Committee.

consolidated entity's performance in relation to environmental regulation areas follows:

The Company commits to comply with all regulations governing the use and application of its water technology products both in Australia and internationally. In Australia, Phoslock is imported from a contract manufacturing operation in China that has received NICNAS certification. The certification is renewed annually. Under its registration, the Company is obliged to advise NICNAS of any material changes to the product, research or technical papers covering the product and material results for applications.

Phoslock has been awarded the North American Drinking Water certification (NSF/ANSI 60) since 2011. The certification is also renewed annually. Internationally, the group is committed to comply with all local regulatory authority requirements.

The directors are not aware of any breaches of environmental regulations by the consolidated entity in any of the regions in which the company operates.

## Remuneration Report (Audited)

This report details the nature and amount of remuneration for each director and executive of Phoslock Water Solutions Limited.

## Remuneration Policy

The remuneration policy of Phoslock Water Solutions Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering bonus payments based on

the consolidated entity's financial results. The board of Phoslock Water Solutions Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the high quality executives and directors to run and manage the consolidated entity, as well as create goal congruence between directors, executives and shareholders.

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the consolidated entity is as follows:

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the remuneration committee. The remuneration committee currently comprises only non-executive directors. The company recently adopted the ASX recommendation for the remuneration committee to comprise only non-executive directors.

All executives receive a base salary (which is based on factors such as length of service and experience), superannuation and share options or a bonus (if certain milestones are met). The remuneration committee reviews executive packages annually by reference to the consolidated entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries. Executives and directors do not receive any other retirement benefits.

All remuneration paid to key management personnel is measured at cost to the company and expensed. No new performance options (subject to performance

criteria) were issued to the managing director during 2014 (2013: 15 million).

The board's policy is to remunerate non-executive directors by reference to market rates for comparable companies, time commitment, responsibilities and experience relevant to the industry. The remuneration committee determines payments to non-executive directors and reviews their remuneration annually based on market practice, duties and accountability.

The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. The current aggregate maximum sum available for remuneration of non-executive directors is set at \$200,000 per year (approved at the 2004 Annual General Meeting). Fees for non-executive directors are not linked to the performance of the consolidated entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company and are able to participate in share placements on the same terms as other investors subscribing for shares.

The aggregate of non-executive director fees (including superannuation) for 2014 was \$110,008 (2013: \$110,008). As at 30 June 2014, the board comprised two non-executive directors and one executive director. The three directors held 49,441,888 (2013: 48,799,935) ordinary fully paid shares in the company as at 30 June, 2014 which comprised 20.6% (2013: 20.3%) of the total issued shares of the company.

## ← Key Management Personnel Remuneration

	Short-term Employment Benefits			Post Employment Benefits	Long-term Benefits	Share Based Payments	Total	Performance Related
	Salary, Fees & Commissions	Non Monetary	Other	Superannuation	Long Service Leave	Shares & Options		
<b>30 June 2014</b>	\$	\$	\$	\$	\$	\$	\$	%
Mr Robert Schuitema	157,375	48,125	5,590	20,546	(7,626)	69,812	293,822	23.8%
The Hon. Pam Allan	50,003	-	-	5,001	-	-	55,004	-
Mr Laurence Freedman	50,003	-	-	5,001	-	-	55,004	-
	257,381	48,125	5,590	30,548	(7,626)	69,812	403,830	17.3%
<b>Specified Executives</b>								
Mr Nigel Traill	155,396	4,600	-	15,996	2,834	5,656	184,482	3.1%
Mr Andrew Winks	105,000	7,500	-	10,500	(1,500)	5,656	127,156	4.4%
Dr Sarah Groves	77,185	7,500	-	8,470	521	1,131	93,765	1.2%
	337,581	19,600	-	34,966	813	12,443	405,403	3.1%
<b>Total</b>	<b>594,962</b>	<b>67,725</b>	<b>5,590</b>	<b>65,514</b>	<b>(6,813)</b>	<b>82,255</b>	<b>809,233</b>	<b>10.2%</b>

	Short-term Employment Benefits			Post Employment Benefits	Long-term Benefits	Share Based Payments	Total	Performance Related
	Salary, Fees & Commissions	Non Monetary	Other	Superannuation	Long Service Leave	Shares & Options		
<b>30 June 2013</b>	\$	\$	\$	\$	\$	\$	\$	%
Mr Robert Schuitema	198,000	7,500	5,590	20,553	4,725	26,368	262,736	10.0%
The Hon. Pam Allan	50,003	-	-	5,000	-	-	55,003	0.0%
Mr Laurence Freedman	50,003	-	-	5,000	-	-	55,003	0.0%
	298,006	7,500	5,590	30,553	4,725	26,368	372,742	7.1%
<b>Specified Executives</b>								
Mr Nigel Traill	157,063	4,600	-	16,165	6,583	2,251	186,662	1.2%
Mr Eddie Edmunds	139,234	51,200	-	14,965	-	-	205,399	0.0%
Mr Andrew Winks	105,000	7,500	-	10,500	1,687	2,251	126,938	1.8%
Dr Sarah Groves	90,105	7,500	-	9,234	1,563	450	108,852	0.4%
	491,402	70,800	-	50,864	9,833	4,952	627,851	0.8%
<b>Total</b>	<b>789,408</b>	<b>78,300</b>	<b>5,590</b>	<b>81,417</b>	<b>14,558</b>	<b>31,320</b>	<b>1,000,591</b>	<b>3.1%</b>

### Remuneration

Executive directors and executives were not paid performance based bonuses during the year. There were no new performance options issued to the managing director nor certain specified executives during the year. The remuneration committee will consider future bonuses to encourage achievement of specific goals that have been given a high level of importance in relation to the future growth and profitability of the consolidated entity. The remuneration committee will review performance bonuses to gauge their effectiveness against achievement of the set goals, and adjust future years' incentives as they see fit, to ensure use of the most cost effective and efficient methods.

## Shares & Options

### Shares and Options Issued as Part of Remuneration for the Year Ended 30 June 2014

No new shares or options were issued to directors during the year.

The movement during the year in the number of ordinary shares in Phoslock Water Solutions Limited held, directly, indirectly or beneficially, by each key management person, including their related parties is as follows:

	Balance 1.07.2013	Received as Compensation	Options Exercised	Net Charge Other*	Balance 30.06.2014
<b>Key Management Personnel</b>					
Mr Laurence Freedman	40,693,273	-	-	616,953	41,310,226
Mr Robert Schuitema	7,806,662	-	-	25,000	7,831,662
The Hon. Pam Allan	300,000	-	-	-	300,000
Mr Nigel Traill	3,555,074	-	-	-	3,555,074
Dr Sarah Groves	516,996	-	-	-	516,996
Mr Andrew Winks	426,087	-	-	-	426,087
<b>Total</b>	<b>53,298,092</b>	<b>-</b>	<b>-</b>	<b>641,953</b>	<b>53,940,045</b>

\*Net Charge Other refers to shares purchased or sold during the financial year.

The movement during the year in the number of options over ordinary shares in Phoslock Water Solutions Limited held, directly, indirectly or beneficially, by each key management person, including their related parties is as follows:

	Balance 1.07.2013	Options Acquired*	Options Exercised	Net Charge Other*	Balance 30.06.2014	Total Vested 30.06.2014	Total Exercisable 30.06.2014	Total Unexercisable 30.06.2014
	No.	No.	No.	No.	No.	No.	No.	No.
Mr Laurence Freedman	-	-	-	-	-	-	-	-
Mr Robert Schuitema	15,000,000	-	(5,000,000)	-	10,000,000	-	-	10,000,000
The Hon. Pam Allan	-	-	-	-	-	-	-	-
Mr Nigel Traill	2,500,000	-	-	-	2,500,000	1,250,000	-	1,250,000
Dr Sarah Groves	500,000	-	-	-	500,000	250,000	-	250,000
Mr Andrew Winks	2,500,000	-	-	-	2,500,000	1,250,000	-	1,250,000
<b>Total</b>	<b>20,500,000</b>	<b>-</b>	<b>(5,000,000)</b>	<b>-</b>	<b>15,500,000</b>	<b>2,750,000</b>	<b>-</b>	<b>12,750,000</b>

\* The Net Charge Other column above includes those options that have lapsed during the year.

## ← Shares & Options

The movement during the period in the number of options over ordinary shares in Phoslock Water Solutions Limited is as follows:

	2014		2013	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
		\$		\$
Outstanding at the beginning of the year	21,100,000	0.15	150,000	0.150
Granted	-	0.10	21,100,000	0.104
Forfeited	(5,000,000)	0.100	-	0.000
Exercised	-	0.000	-	0.000
Expired	-	0.000	(150,000)	0.150
<b>Outstanding at year-end</b>	<b>16,100,000</b>	<b>0.104</b>	<b>21,100,000</b>	<b>0.104</b>
<b>Exercisable at year end</b>	<b>3,050,000</b>	<b>0.100</b>	<b>-</b>	<b>0.100</b>

The 16,100,000 performance based options outstanding at 30 June 2014 had a weighted average exercise price of \$0.104 and a weighted average remaining contractual life of 1.6 years. The average exercise price for the options outstanding at 30 June 2014 is \$0.10. The life of the options is based on the historical exercise patterns, which may not eventuate in the future. All options granted are for ordinary shares in Phoslock Water Solutions Limited which confer a right of one ordinary share for every option held.

	Options granted as remuneration incl previous years	Total Remuneration represented by Options	Options issued	Options exercised	Options lapsed	Total
	\$	%				
Mr Laurence Freedman	-	-	-	-	-	-
Mr Robert Schuitema	69,812	23.8%	-	-	(5,000,000)	(5,000,000)
The Hon. Pam Allan	-	-	-	-	-	-
Mr Nigel Traill	5,656	3.1%	-	-	-	-
Dr Sarah Groves	1,131	1.2%	-	-	-	-
Mr Andrew Winks	5,656	4.4%	-	-	-	-

Value of options that lapsed as are a result of vesting conditions not being fulfilled was \$5,411 (2013: \$0).

## Meetings of Directors

During the financial year, 12 meetings of directors (including committees of directors) were held. Attendances by each director during the year were:

Directors' Meeting			Committee Meeting			
			Audit & Compliance		Remuneration	
	Number Eligible to attend	Number Attended	Number Eligible to attend	Number Attended	Number Eligible to attend	Number Attended
Mr Laurence Freedman	8	8	3	3	1	1
Mr Robert Schuitema	8	8	3	3	-	-
The Hon. Pam Allan	8	8	3	3	1	1

## Loans to Key Management Personnel

Details of loans made to directors of Phoslock Water Solutions Limited and other key management personnel of the group, including close family members and entities related to them are as follows:

### Aggregates for key management personnel

	Balance at start of year	Interest paid and payable	Interest not charged	Balance at end of year	Number in group at 30 June
	\$	\$	\$	\$	
<b>2014</b>	102,100	-	102,100	34,375	1
<b>2013</b>	75,000	-	75,000	102,100	5

There are no loans to individuals that are in excess of \$100,000 at any time in the current financial year or in the prior financial year.

No interest is charged in respect of any of the loans to directors and key management personnel. The loans are unsecured and are repayable over a period of between 12 and 24 months by way of monthly salary deductions. No write-downs or allowances for doubtful debts has been recognised in relation to any of the loans. The loans were in relation to purchase of shares in the parent entity.

## Employment Contracts of Directors & Senior Executives

The employment conditions of the Managing Director and executives are formalised in contracts of employment or letters of appointment.

Employment contracts stipulate a range of one to three month resignation periods. The Company may terminate a contract of employment without cause by providing written notice or making payment in lieu of notice for a period equivalent to the resignation period. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time. Directors or Senior Executives have 15,500,000 options outstanding as at 30 June 2014 (2013: 20,500,000).

There were no termination payments during the year (2013: nil).

## Options

As at the date of this report the unissued ordinary shares of Phoslock Water Solutions Ltd under options are as follows:

Grant Date	Date of Expiry	Exercise price	Number under option	
18-Feb-13	1-Jan-16	\$0.10	5,000,000	Not Vested
18-Feb-13	1-Jan-17	\$0.10	5,000,000	Not Vested
22-Feb-13	31-Dec-14	\$0.10	2,750,000	Vested
22-Feb-13	31-Dec-15	\$0.12	2,750,000	Not Vested
18-Mar-13	31-Dec-14	\$0.10	300,000	Vested
18-Mar-13	31-Dec-15	\$0.12	300,000	Not Vested
			<b>16,100,000</b>	

These options do not entitle the holder to participate in any share issue of the Company, nor do they carry any voting rights or rights to dividends. Details regarding the group's share based payment schemes are included in Note 23.



EUROPEAN TECHNICAL SEMINAR, ITALY ▸

## Indemnifying Officers or Auditor

During or since the end of the financial year the Company has given an indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums as follows: The Company has paid premiums totalling \$24,322 (2013: \$24,658) to insure all directors and executives against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director or officer of the Company. Neither indemnities nor agreements to indemnify exist in relation to the Company's auditor.

## Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceeding. The Company was not a party to any such proceedings during the year.

## Non-Audit Services

No non-audit services were provided to the Company by the company's auditors during the reporting period.

## Auditor's Independence Declaration

The lead auditor's independence declaration in accordance with Section 307C of the Corporations Act 2001, for the year ended 30th June 2014 has been received and can be found on page 21 of the directors' report.

## Post Balance Date Events

Subsequent to balance date, the converting or repayment date of the Convertible Notes was varied through a Deed Poll - Further Variation (approved in a General Meeting on 18 July 2014) to 30 Jun 2016. There were no other changes to the terms or conditions. 5 million share options in PHK shares at an exercise price of \$0.053 per share has been issued to Link Traders (Aust) Pty Ltd as consideration. The Convertible Notes is presented as a current liability in accordance with the presentation requirement of the accounting standard.

Signed in accordance with a resolution of the Board of Directors of Phoslock Water Solutions Limited

**Robert Schuitema**

Managing Director

Dated at Sydney, 28th August 2014

**The Hon. Pam Allan**

Non-Executive Director - Chairman of Audit Committee

Dated at Sydney, 28th August 2014

## Auditor's Independence Declaration

Under Section 307C of the Corporations Act 2001



**W.W.Vick & Co.**  
*Chartered Accountants*

W.W. VICK & CO.  
ABN 14 568 923 714  
5th floor, Fayworth House  
379-383 Pitt Street  
Sydney, NSW 2000  
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World Square, NSW 2002  
  
Tel: (02) 9266 0881  
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Email: [moreinfo@wwvick.com.au](mailto:moreinfo@wwvick.com.au)

[www.wwvick.com.au](http://www.wwvick.com.au)

### To the directors of Phoslock Water Solutions Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2014, there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

5th Floor  
379-383 Pitt Street  
Sydney NSW 2000

Dated: 28 August 2014

**W. W. Vick & Co.**  
Chartered Accountants

Phillip Jones - Partner

# Corporate Governance

The Board of Directors of Phoslock Water Solutions Limited is responsible for the corporate governance of the Consolidated Entity. The Board guides and monitors the business and affairs of Phoslock Water Solutions Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

The following formalises the main corporate governance practices established and in force throughout the financial year to ensure the Board is well equipped to discharge its responsibilities.

## Composition of the Board

The composition of the Board shall be determined in accordance with the following principles and guidelines:

- The Board should consist of at least 3 Directors, increasing where additional expertise is considered desirable in certain areas.
- The majority of the Board members should be Independent Non-Executive Directors.
- The Chairman of the Board should be an Independent Non-Executive Director.
- Directors should bring characteristics which allow a mix of qualifications, skills and experience both nationally and internationally.
- All available information in connection with items to be discussed at a meeting of the Board shall be provided to each Director prior to that meeting.

The current Chairman of the Board, Mr Laurence Freedman, is a Non-Executive Director and not involved in any day to day decision making of the Company.

Mr Freedman is Phoslock Water Solutions Limited largest shareholder. Mr Freedman's direct and indirect shareholding in the Company totals 41.3 million shares which is equivalent to 17.2% of the Company's issued capital. A company associated with Mr Freedman hold 1,300 Convertible Notes, which each Note may convert into \$1,000 or 21,739 fully paid shares. The holder can elect prior to 30 June, 2016 which redemption option they prefer for each Note. If all the Notes were converted to fully paid shares, Mr Freedman's direct and indirect shareholding in the Company would increase to 69.6 million shares would be equivalent to 25.9% of the Company's increased issued capital. A company associated to Mr Freedman provides debtor factoring facilities from time to time to the Company. This allows the Company to convert a debtor invoice into cash, which is used for working capital

by the Company. The terms and conditions provided by the company associated to Mr Freedman is more favourable to the Company than it would obtain from trading banks or specialist debtor financing companies. The Company does not deal with Mr Freedman on these transactions, with the administration of these handled by full time employees of the financing company.

The two directors of the Company, other than Mr Freedman, have considered the ASX Corporate Governance Principles (2.1 and 2.2 – detailed on page 24 of this Annual Report) and believe that it is in the best interests of the Company and its shareholders having Mr Freedman as non-executive Chairman of the Company.

The Board will review its composition on an annual basis to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, for whatever reason, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board will select appropriate candidates with relevant qualifications, skills and experience. External advisers may be used to assist in such a process. The Board will then appoint the most suitable candidate, who must stand for election at the next general meeting of shareholders.

## The primary responsibilities of the Board include:

- The establishment of the long term goals of the Company and strategic plans to achieve those goals;
- The review and adoption of annual budgets for the financial performance of the Company and monitoring those results on quarterly basis. This includes the establishment and monitoring of key performance indicators (both financial and non-financial) for all significant business processes;
- Ensuring the Consolidated Entity has implemented adequate systems of internal control together with appropriate monitoring of compliance activities; and
- The approval of the annual and half-year financial reports.

The terms and conditions of the appointment and retirement of Directors will be set out in a letter of appointment which covers remuneration, expectations, terms, the procedures for dealing with conflicts of interest and the availability of independent professional advice.

The performance of all Directors will be reviewed by the Chairman each year.

## Independent professional advice

Each Director will have the right to seek independent professional advice at the Company's expense. The prior approval of the Chairman will be required, which will not be unreasonably withheld.

## Remuneration

The Board will review the remuneration packages and policies applicable to the Directors and Senior Executives on an annual basis. Remuneration levels will be competitively set to attract the most qualified and experienced Directors and Senior Executives.

Where necessary the Board will obtain independent advice on the appropriateness of remuneration packages.

## Audit committee

The Board shall maintain an Audit Committee of at least two Directors. Audit Committee meetings may also be attended, by invitation, by the external auditors. The role of the Committee will be to provide a direct link between the Board and the external auditors.

It will also give the Board additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining the matters for inclusion in the financial statements.

## The responsibilities of the Audit Committee include:

- Monitoring compliance with regulatory requirements;
- Improving the quality of the accounting function;
- Reviewing external audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified appropriate and prompt remedial action is taken by management; and
- Liaising with the external auditors and ensuring that the annual audit and half-year review are conducted in an effective manner.

The Audit Committee will review the performance of the external auditors on an annual basis. Nomination of auditors will be at the discretion of the Audit Committee.

## Business risk

The Board will monitor and receive advice on areas of operational and financial risk, and consider strategies for appropriate risk management arrangements.

Specific area of risk identified initially and regularly considered

at Board Meetings include risks associated with business and investment, new and rapidly evolving markets, technological change, competition and business and strategic alliances, the environment and continuous disclosure obligations.

## Ethical standards

The Board's policy is for the Directors and Senior Management to conduct themselves with the highest ethical Standards. All Directors and employees will be expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the Consolidated Entity.

## Trading in Phoslock Water Solutions Limited Securities

The Board's policy with regard to trading in the Company's securities is that prior to any transaction, Directors and officers must obtain clearance from the Chairman to ensure that no transactions are made where the Director or officer is in possession of price sensitive information.

## Authority limits

The Board shall annually review the level of authority limits for the Managing Director and Senior Management. That review shall coincide with the approval of the annual budgets.

## Confidentiality

The Board members are required to ensure that all Company business is kept confidential by each Director and staff in their control.

## Dealing with conflicts of interest

A potential conflict of interest may arise from time to time.

If a conflict or potential conflict of interest arises, full disclosure should be made to the Board as soon as the Director becomes aware of the conflict or potential conflict. The Board shall manage the conflict in such a way that the interests of the Company as a whole are safeguarded.

A conflict will arise:

- When the private or other business Interests of Directors and officers conflict directly or indirectly with their obligations to the Company; and
- When benefits (including gifts and entertainment) are received from a person doing business which could be seen by others as creating an obligation to someone other than the Company.

Directors and officers shall not act in a way which may cause others to question their loyalty to the Company.

## ← ASX Principle

## Company Status & Reference/Comment

### Principle 1: Lay solid foundations for management and oversight

Formalise and disclose the functions reserved to the board and those delegated to management.	A	The company has formalized and disclosed the functions reserved to the Board and those delegated to management. The company has a small board consisting of three Directors, two of whom are Non-Executive
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### Principle 2: Structure the board to add value

2.1 A majority of board members should be independent directors	A	Two of the three Directors are independent Non-Executives (see page 22)
2.2 The chairperson should be an independent director	A	The Company has an independent Chairman (see page 22)
2.3 The roles of chair person and chief executive officer should not be exercised by the same individual	A	The positions of Chairman and Managing Director are not held by the same person
2.4 The company should disclose the process selecting and evaluating new board members	A	The board has a Nomination Committee. For the time being, all Directors are members of the Committee
2.5 The company should disclose the process for evaluating the performance of the board.	A	The performance of all Directors will be reviewed by the Chairman each year.
2.6 Provide the information indicated in Guide to reporting on Principle 2.	A	The skills and experience of directors are set out in the Company's Annual Report and on its website

### Principle 3: Act ethically and responsible

3.1 Establish a code of conduct to guide the directors, the chief executive officer (or equivalent) and any other key executives as to:	A	The Company has formulated a Code of Conduct which can be viewed on the Company's website.
3.1.1 The practices necessary to maintain confidence in the companies integrity		The board continues to review existing procedures over time to ensure adequate processes are in place.
3.1.2 The responsibility and accountability of individuals for reporting or investigating reports of unethical practices.		All directors, employees and contractors are expected to act with the upmost integrity and objectivity in their dealings with other parties, striving at all times to enhance the reputation and performance of the company.
3.2 Establish a diversity policy with measureable objectives and monitor through an annual assessment process	A	The Board is committed to diversity of its employees. As the consolidated entity grows in size and the company will have greater flexibility with its diversity policy
3.3 Disclose the policy and measurable objectives concerning gender diversity.	A	The Company will take gender diversity into consideration as it grows in size and has a larger employment base
3.4 The Consolidated entity should disclose in the annual report the proportion of women employed in the organization, in senior roles on the Board.	A	17% of current employees are female. One of the 3 Directors is female
3.5 Provide the information indicated in guide to reporting on Principle 3.	A	Website and annual report

### Principle 4: Safeguard integrity in corporate reporting

4.1 The Board should establish an audit committee	A	The Company has established an Audit committee
4.2 Structure the Audit Committee so that it consists of:	A	The Audit Committee currently consists of two Directors. The charter of this Committee is disclosed on the Company's website.
• Only Non-Executive Directors		The chair of the Audit Committee is not the Chairman of the Board. All Audit Committee members are financially literate.
• A majority of independent Directors		
• An Independent chair person who is not the chair person of the board		
• At least three members		
4.3 The audit committee should have a formal charter.	A	The Audit Committee has a formal charter
4.4 Provide the information indicated in Guide to reporting on Principal 4.	A	A copy of the charter is on the Company's website
4.5 External auditors should attend the company AGM	A	Auditors are required to attend under letter of engagement

## ASX Principle

## Company Status &amp; Reference/Comment

## Principle 5: Make timely and balanced disclosure

5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements to ensure accountability at a senior management level for that compliance.	A	The Company has instigated internal procedures designed to provide reasonable assurance as to the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with relevant laws and regulations. The Board is acutely aware of the continuous disclosure regime, and there are strong informal systems in place to ensure compliance, underpinned by experience.
5.2	Provide the information indicated in Guide to reporting Principal 5.	A	The Company publishes and releases the ASX quarterly reports on cash flow as well as audited annual and half-yearly results.

## Principle 6: Respect the rights of security holders

6.1	Design and disclose a communications strategy to promote effectiveness communication with share holders and encourage effective participation at general meetings.	A	In line with adherence to continuous disclosure requirements of ASX, all shareholders are kept informed of material developments affecting the Company. Shareholders are encouraged to exercise the right to vote, either by attending meetings, or by lodging a proxy. The Company's auditors attend all shareholders' meetings
6.2	Provide the information indicated in Guide to reporting on Principal 6.	A	This disclosure is through regular shareholder communications including the Annual Report, Quarterly Reports, the Company website and its distribution of specific releases covering major transactions or events, as they arise.

## Principle 7: Recognise and manage risk

7.1	The Board or appropriate committee should establish policies on risk oversight and management.	A	The Board recognises its responsibility for identifying areas of significant business risk and for ensuring that arrangements are in place for adequately managing these risks. This issue is regularly reviewed at board meetings and risk management culture is encouraged amongst employees and contractors.
7.2	The Board should require management to design and implement the risk management and internal control system.	A	Determined areas of risk which are regularly considered include: <ul style="list-style-type: none"> <li>• Performance and funding of commercial activities</li> <li>• Budget control and asset protection</li> <li>• Compliance with Government laws and regulations</li> <li>• Safety and the environment</li> <li>• Continuous disclosure obligations.</li> </ul> Disclosure in Directors' Report
7.3	The Board should disclose that it has received assurance from the CEO / CFO in accordance with section 295A of the Corporations Act 2001.	A	
7.4	Provide information indicated in Guide to reporting on Principal 7	A	Website and reports from management

## Principle 8: Remunerate fairly and responsibly

8.1	The Board should establish a Remuneration Committee	A	The Board has established a Remuneration Committee
8.2	The Remuneration Committee should be structured such that it:- (i) Contains majority of independent directors. (ii) Is chaired by an independent director. (iii) Has at least three members.	A	The Remuneration Committee consist of 2 members both Non-Executives Directors and is chaired by an Non-Executive director.
8.3	Clearly distinguish the structure of non executives directors' remuneration from that of executives	A	The Company discloses remuneration related information in its Annual Report to shareholders in accordance with the Corporations Act 2001. Remuneration levels are determined by the board on an individual basis, the size of the company making individual assessment more appropriate than formal remuneration policies. The policy disclosed in the remuneration report distinguishes between Non-Executive Directors and Senior Managers.
8.4	Provide information indicated in Guide to reporting on Principle 8	A	Website and annual report

## ← Consolidated Statement of Comprehensive Income for the year ended 30 June 2014

	Note	2014	2013
		\$	\$
Sales revenue	2	1,104,161	1,313,344
Cost of sales	3	(506,699)	(798,919)
<b>Gross profit</b>		<b>597,462</b>	<b>514,425</b>
Other revenue	2	310,331	316,606
Distribution expenses		(74,639)	(130,151)
Marketing expenses		(293,080)	(301,428)
Occupancy expenses	3	(129,546)	(158,080)
Administrative expenses		(524,221)	(679,704)
Employee benefit expenses	3	(1,152,010)	(1,315,679)
Depreciation and amortisation	3	(34,472)	(61,836)
Finance costs	3	(292,211)	(244,585)
Gain/(Loss) on asset sales		18,495	-
Impairment of fixed asset	12	(1,153)	-
<b>Loss Before Income Tax</b>		<b>(1,575,045)</b>	<b>(2,060,431)</b>
Income tax expense/ (revenue)	4	-	-
<b>Loss For The Year</b>		<b>(1,575,045)</b>	<b>(2,060,431)</b>
<b>Other comprehensive income</b>			
Exchange differences arising on translation of foreign controlled entities		6,997	249,148
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(1,568,048)</b>	<b>(1,811,283)</b>
Profit (Loss) for the year attributable to:			
- Owners of parent entity		(1,567,412)	(2,001,391)
- non-controlling interest		(7,633)	(59,040)
<b>Total loss for the year</b>		<b>(1,575,045)</b>	<b>(2,060,431)</b>
Total comprehensive income /(loss) attributable to:			
- Owners of parent entity		(1,567,521)	(1,778,267)
- non-controlling interest		(527)	(33,016)
<b>Total comprehensive loss for the year</b>		<b>(1,568,048)</b>	<b>(1,811,283)</b>
Earnings per share			
Basic earnings per share (cents per share)	7	(0.65)	(0.90)
Diluted earnings per share (cents per share)	7	(0.59)	(0.86)

The accompanying notes form part of these consolidated financial statements

# Consolidated Statement Of Financial Position

## for the year ended 30 June 2014

	Note	2014	2013
		\$	\$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	8	248,490	409,760
Trade and other receivables	9	402,245	472,842
Inventories	10	132,971	358,457
Other assets	14	62,709	39,087
<b>Total Current Assets</b>		<b>846,414</b>	<b>1,280,147</b>
<b>Non-Current Assets</b>			
Financial assets		25,000	35,349
Plant and equipment	12	150,065	144,946
Intangible assets	13	-	-
<b>Total Non-Current Assets</b>		<b>175,065</b>	<b>180,295</b>
<b>TOTAL ASSETS</b>		<b>1,021,480</b>	<b>1,460,441</b>
<b>Current Liabilities</b>			
Trade and other payables	15	322,586	311,405
Financial liabilities	16	2,568,135	1,577,402
Short-term provisions	17	244,788	203,881
<b>Total Current Liabilities</b>		<b>3,135,509</b>	<b>2,092,688</b>
<b>Non-Current Liabilities</b>			
Long-term provisions	17	107,329	104,642
<b>Total Non-Current Liabilities</b>		<b>107,329</b>	<b>104,642</b>
<b>Total Liabilities</b>		<b>3,242,838</b>	<b>2,197,330</b>
<b>NET ASSETS/(LIABILITIES)</b>		<b>(2,221,358)</b>	<b>(736,889)</b>
<b>EQUITY</b>			
Issued capital	18	31,731,715	31,731,715
Reserves	19	605,919	514,815
Retained earnings		(34,253,628)	(32,686,216)
Owner's interest		<b>(1,915,994)</b>	<b>(439,685)</b>
Non-controlling interest		(305,364)	(297,204)
<b>TOTAL EQUITY</b>		<b>(2,221,358)</b>	<b>(736,889)</b>

The accompanying notes form part of these financial statements

## Consolidated Statement of Changes in Equity for the year ended 30 June 2014

	Notes	Issued capital \$	Option Reserves	Foreign currency translation reserves \$	Non controlling interests \$	Accumulated losses \$	Total \$
<b>30 June 2013</b>							
<b>Balance at 1 July 2012</b>		30,632,302	-	200,906	(205,148)	(30,684,826)	(56,766)
Total comprehensive income							
Loss for the year		-	-	-	(59,040)	(2,001,390)	(2,060,430)
Other comprehensive income		-	-	282,164	(33,016)	-	249,148
<b>Total comprehensive loss for the year</b>		<b>-</b>	<b>-</b>	<b>282,164</b>	<b>(92,056)</b>	<b>(2,001,390)</b>	<b>(1,811,282)</b>
<b>Transactions with owners in their capacity as owners</b>							
Shares issued during the year		1,197,663	31,745	-	-	-	1,229,408
Shares held as treasury		(92,000)	-	-	-	-	(92,000)
Transaction costs		(6,250)	-	-	-	-	(6,250)
Total transactions with owners in their capacity as owners		<b>1,099,413</b>	<b>31,745</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,131,158</b>
<b>Balance at 30 June 2013</b>		<b>31,731,715</b>	<b>31,745</b>	<b>483,070</b>	<b>(297,204)</b>	<b>(32,686,216)</b>	<b>(736,890)</b>
<b>30 June 2014</b>							
<b>Balance at 1 July 2013</b>		<b>31,731,715</b>	<b>31,745</b>	<b>483,070</b>	<b>(297,204)</b>	<b>(32,686,216)</b>	<b>(736,890)</b>
Total comprehensive income							
Profit/(loss) for the year		-	-	-	(7,633)	(1,567,412)	(1,575,045)
Other comprehensive income		-	-	7,524	(527)	-	6,997
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>7,524</b>	<b>(8,160)</b>	<b>(1,567,412)</b>	<b>(1,568,048)</b>
<b>Transactions with owners in their capacity as owners</b>							
Shares issued during the year		-	83,580	-	-	-	83,580
Shares held as treasury		-	-	-	-	-	-
Transaction costs		-	-	-	-	-	-
Total transactions with owners in their capacity as owners		<b>-</b>	<b>83,580</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>83,580</b>
<b>Balance at 30 June 2014</b>		<b>31,731,715</b>	<b>115,325</b>	<b>490,594</b>	<b>(305,364)</b>	<b>(34,253,628)</b>	<b>(2,221,358)</b>

The accompanying notes form part of these financial statements

## Consolidated Statement of Cash Flows for the year ended 30 June 2014

	Note	2014	2013
		\$	\$
<b>CASHFLOW FROM OPERATING ACTIVITIES</b>			
Receipts from customers		1,490,757	1,442,537
Payments to suppliers and employees		(2,285,548)	(2,380,600)
Interest received		1,867	3,875
Finance costs		(259,351)	(244,584)
<b>Net cash from used in operating activities</b>	22	<b>(1,052,275)</b>	<b>(1,178,772)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Sale of property, plant & equipment		82,668	-
Purchase of property, plant and equipment		(104,918)	(87,428)
<b>Net cash from used in investing activities</b>		<b>(22,250)</b>	<b>(87,428)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Proceeds from share issue		-	1,105,663
Transaction costs		-	(6,250)
Proceeds from borrowings		983,507	183,702
Repayment of borrowings		(67,725)	-
<b>Net cash from financing activities</b>		<b>915,782</b>	<b>1,283,115</b>
Net increase/(decrease) in cash and cash equivalents held		(158,743)	16,915
Cash and cash equivalents at the beginning of the period		409,760	384,381
Effect of exchange rates on cash holdings in foreign currencies		(2,527)	8,464
<b>Cash and cash equivalents at the end of the period</b>	8	<b>248,490</b>	<b>409,760</b>

The accompanying notes form part of these financial statements

# Notes to the Financial Statements for the year ended 30 June 2014

This financial report covers the consolidated financial statements and notes of Phoslock Water Solutions Limited and Controlled Entities (the 'Group'). Phoslock Water Solutions Limited is a for profit Company domiciled in Australia. The financial statements were authorised for issue by the Board of Directors on 28 August 2014.

## Note 1 Statement Of Significant Accounting Policies

### Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

These financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The significant accounting policies used in the preparation and presentation of these financial statements are provided below and are consistent with prior reporting periods unless otherwise stated.

The financial statements are based on historical costs, except for the measurement at fair value as indicated.

### Comparative Figures

Where required by Accounting Standards comparative figures have been adjusted to conform to changes in presentation for the current financial year.

### (a) Principles of Consolidation

The consolidated financial statements include the financial position and performance of controlled entities from the date on which control is obtained until the date that control is lost.

Intragroup assets, liabilities, equity, income, expenses and cashflows relating to transactions between entities in the consolidated entity have been eliminated in full for the purpose of these financial statements.

Appropriate adjustments have been made to a controlled entity's financial position, performance and cash flows where the accounting policies used by that entity were different from those adopted by the consolidated entity.

A list of controlled entities is contained in Note 11(b) of the financial statements.

### Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the group.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

### Changes in ownership interests

When the group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

## (b) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the

- fair values of the assets transferred;
- liabilities incurred;
- equity interests issued by the group;
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

- The excess of the;
- consideration transferred;
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquire is remeasured to fair value at the acquisition date. Any gains or losses arising from such

remeasurement are recognised in profit or loss.

## (c) Foreign Currency Transactions and Balances

### Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

### Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are generally recognised in the statement of comprehensive income. Foreign currency monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rate. Non-monetary assets and liabilities measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary assets and liabilities measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary assets and liabilities are recognised in statement of comprehensive income, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary assets and liabilities are recognised directly in equity to the extent that the gain or loss is directly recognised in equity; otherwise the exchange difference is recognised in the statement of comprehensive income.

### Group Companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the groups foreign currency translation reserve in the statement of financial position. These differences are recognised in the statement of comprehensive income in the period in which the operation is disposed.

← On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in the statement of comprehensive income.

When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

## (d) Revenue and Other Income

Revenue is measured at the fair value of consideration received or receivable, net of discounts. Revenue is recognised to the extent that it is probable that economic benefits will flow to the group, and revenue can be reliably measured.

Revenue from the sale of goods is recognised at the point of invoicing as this corresponds to the transfer of significant risks and rewards of ownership of the goods.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets is the rate inherent in the instrument.

All revenue is stated net of the amount of goods and services tax (GST).

## (e) Income tax

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses. Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is

realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realization and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realization and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

## Investment allowances and similar tax incentives

Companies within the group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure (eg the Research and Development Tax Incentive regime in Australia or other investment allowances). The group accounts for such allowances as other receivables.

## (f) Impairment of Assets

At each statement date, the consolidated group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

## (g) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership are transferred to the entity are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the

fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the consolidated entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a diminishing value basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses to profit and loss on a straight line basis over the period of the lease.

#### **(h) Cash and cash equivalents**

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial performance.

#### **(i) Trade Receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 60 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the

allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

#### **(j) Inventories**

Inventories are all purchased finished goods and are measured at the lower of cost and net realisable value. Costs of purchased inventory comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition, net of rebates and discounts. Costs are assigned on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

#### **(k) Non-current assets (or disposal groups) held for sale and discontinued operations**

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results

← of discontinued operations are presented separately in the income statement.

## (l) Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

### Plant and equipment

Plant and equipment are measured on the cost basis. The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

### Depreciation

The depreciable amount of all fixed assets is depreciated on a written down value basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Plant & Equipment	10-33%
Office Equipment	15-33%
Office Furniture	20%
Motor Vehicles	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the statement of comprehensive income. When

revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

## (m) Investment in Associates

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting. The equity method of accounting recognised the group's share of post acquisition reserves of its associates.

## (n) Intangibles

### Phoslock Licence Patents and Trademarks

Licences, patents and trademarks are recognised at cost of acquisition. All intellectual property has a finite life and is carried at cost less any accumulated amortisation and any impairment losses. Licences, patents and trademarks are amortised over their useful lives representing the term of the intellectual property.

### Research and Development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

## (o) Financial instruments

### Recognition and initial measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised initially using trade date accounting, i.e. when the entity becomes a party to the contractual provisions of the instrument.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately.

### Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expires. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed is recognised in profit or loss.

### Classification and subsequent measurement

Financial instruments are classified and measured as set out below.

- Financial assets at fair value through profit and loss  
Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.
- Loans and receivables  
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.
- Held-to-maturity investments  
Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities at the groups management has the positive intention and ability to hold to maturity. Held-to-maturity assets are carried at amortised cost using the effective interest method.
- Available for sale financial assets  
Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.
- Financial liabilities  
Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

### Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

### Impairment

At each reporting date, the group assess whether there is objective evidence that a financial instrument

has been impaired. In the case of available-for sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

### (p) Derivatives and hedging activities

The Group does not use any derivative financial instrument and does not engage in hedge accounting activities.

### (q) Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

## ← (r) Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

## (s) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

## (t) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

## (u) Borrowing Costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. All other borrowing costs are expensed in the period in which they are incurred.

## (v) Employee benefits

### Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

## Other long-term obligations

The liabilities for long service leave and that of annual leave not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are therefore recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

## Share-based payments

The group operates an employee share option arrangement. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to a share-based payment reserve in equity. The fair value of options is ascertained using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

## (w) Goods and Services Tax (GST)

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

Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flow on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

## (x) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the company's equity instruments, for example as the result of a share buy-back or a sharebased payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of Phoslock Water Solutions Limited as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of Phoslock Water Solutions Limited.

## **(y) Earnings per share**

### **Basic earnings per share**

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

### **Diluted earnings per share**

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

## **(z) Parent entity financial information**

The financial information for the parent entity, Phoslock Water Solutions Limited, disclosed in Note 11 has been prepared on the same basis as the consolidated financial statements, except as set out below.

### **Investments in subsidiaries and associates**

Investments in subsidiaries and joint venture entities are accounted for at cost in the financial statements of Phoslock Water Solutions Limited. Dividends received from associates are recognised in the parent entity's profit or loss when its right to receive the dividend is established.

### **Tax Consolidation**

Phoslock Water Solutions Limited (Head entity) and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under tax consolidation legislation. Each entity in the group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the 'stand-alone tax

payer' approach to allocation. Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the head entity.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Phoslock Water Solutions Limited (head entity) for any current tax payable assumed and are compensated by the head entity for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to the head entity under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the whollyowned entities' financial statements.

Phoslock Water Solutions Limited notified the Australian Tax Office that it had formed an income tax consolidated group to apply from 1 July 2004.

### **Financial guarantees**

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

### **Share-based payments**

The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

## **(aa) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the strategic steering committee.

## **(ab) Critical accounting estimates**

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are as follows:

### **(i) Income taxes**

The group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant

← judgment is required in determining the worldwide provision for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain.

The group estimates its tax liabilities based on the group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

## (ii) Estimation of useful lives of assets

The group determines the estimated useful lives and related depreciation and amortisation charges for property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where useful lives are less than previously estimated.

## (iii) Provision for impairment of receivables

The provision for impairment of receivables assessment requires a degree of estimation and judgment. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivable, historical collection rates and specific knowledge of individual debtors financial position.

## (iv) Long Service Leave Provision

As per note 1, the liability for long services leave is recognized and measured at the present value of estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through inflation have been taken into account.

## (ac) Changes in Accounting Policies

### New and amended standards adopted by the Group

The group has applied the following standards and amendments for first time for their annual reporting period commencing 1 July 2013:

- AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, AASB 128 Investments in Associates and Joint Ventures, AASB 127 Separate Financial Statements and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards
- AASB 2012-10 Amendments to Australian Accounting Standards – Transition Guidance and other Amendments which provides an exemption from the requirement to disclose the impact of the change in accounting policy on

the current period

- AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13
- AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)
- AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle, and
- AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities

The adoption of new and amended standards has only affected the disclosures in the notes to the financial statements. There were no changes to the accounting policies nor adjustments to the amounts recognised in the financial statements.

### New standards and Interpretations not yet adopted

Certain new accounting standards and interpretations that are not mandatory for 30 June 2014 reporting periods have not been early adopted by the group. The group's assessment of the impact of these new standards and interpretations is set out below.

### AASB 9 Financial Instruments

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2017 but is available for early adoption. When adopted, the standard will affect in particular the group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The derecognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed. The consolidated entity has not yet determined the potential effect of the standard.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## Note 2 Revenue

	Note	2014	2013
		\$	\$
<b>Sales Revenue</b>			
- sale of goods		1,104,161	1,313,344
Trust sales revenue		<b>1,104,161</b>	<b>1,313,344</b>
<b>Other income</b>			
- interest received	2 (a)	1,867	3,874
- export development/r&d grants		308,350	289,683
- foreign currency translation gains		-	23,049
- other income		113	-
		<b>310,331</b>	<b>316,606</b>
<b>Total Sales and other income</b>		<b>1,414,492</b>	<b>1,629,950</b>
(a) Interest revenue from:			
- other persons		1,867	3,874
- related parties		-	-
		<b>1,867</b>	<b>3,874</b>

## Note 3 Loss For The Year

Loss for the year is determined after incurring the following expense items:

		Consolidated Group	
	Note	2014	2013
		\$	\$
<b>Expenses</b>			
Cost of sales		506,699	798,919
Finance costs:			
- related party		292,211	244,585
Total finance costs		<b>292,211</b>	<b>244,585</b>
Rental expense on operating leases			
- minimum lease payments		60,750	44,658
Loss/(gain) on disposal of plant and equipment		(18,495)	-
Superannuation contributions		68,733	96,242
Depreciation		34,472	61,836

## ← Note 4 Income Tax Expense

Consolidated Group			
	Note	2014	2013
		\$	\$
<b>(a) Income tax expense</b>			
- current year		-	-
- deferred tax		-	-
		-	-
<b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>			
Operating profit/ (loss) before tax		<b>(1,575,045)</b>	<b>(2,060,431)</b>
<b>Tax at the Australian tax rate of 30%</b>		<b>(472,514)</b>	<b>(618,129)</b>
Tax effect of:			
- Non-deductible impairment losses and depreciation and amortisation		-	-
- Other non-allowable items		13,079	9,536
- Other non-assessable items		(5,549)	(5,221)
- Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductability set out in Note 1(e) occur.		464,984	613,814
<b>Income tax expense/(revenue)</b>		<b>-</b>	<b>-</b>
<b>(c) Unrecognised deferred tax assets</b>			
Accumulated losses		26,145,190	24,570,145
Potential tax losses		<b>7,843,557</b>	<b>7,371,044</b>
Temporary differences - accruals and provisions		379,719	356,418
Potential tax benefit		<b>113,916</b>	<b>106,925</b>
<b>Total deferred tax assets not brought to account</b>		<b>7,957,473</b>	<b>7,477,969</b>

## Note 5 Key Management Personnel Compensation

(a) Names and positions held of consolidated and parent entity key management personnel in office at any time during the financial year are:

Key Management Person	Position
Mr Laurence Freedman	Chairman - Non Executive
Mr Robert Schuitema	Managing Director and Company Secretary
The Hon. Pam Allan	Director - Non Executive
Mr Nigel Traill	General Manager - Europe & Americas
Dr Sarah Groves	General Manager - Technical
Mr Andrew Winks	General Manager - Operations

Key management personnel remuneration has been included in the Remuneration Report section of the Directors' Report.

Consolidated Group		
	2014	2013
	\$	\$
Short term employee benefits	668,277	873,298
Post employment benefits	65,514	81,417
Long term benefits	(6,813)	14,558
Equity compensation benefits	82,255	31,320
<b>Total compensation</b>	<b>809,233</b>	<b>1,000,593</b>

(b) Options and Right Holdings: Number of Options held by Key Management Personnel

	Balance 1.07.2013	Options Acquired	Options Exercised	Net Charge Other	Balance 30.06.2014	Total vested 30.06.2014	Total Exercisable 30.06.2014	Total Unexercisable 30.06.2014
	No.	No.	No.	No.	No.	No.		
Mr Laurence Freedman	-	-	-	-	-	-	-	-
Mr Robert Schuitema	15,000,000	-	-	(5,000,000)	10,000,000	-	-	10,000,000
The Hon. Pam Allan	-	-	-	-	-	-	-	-
Mr Eddie Edmunds	-	-	-	-	-	-	-	-
Mr Nigel Traill	2,500,000	-	-	-	2,500,000	1,250,000	-	1,250,000
Dr Sarah Groves	500,000	-	-	-	500,000	250,000	-	250,000
Mr Andrew Winks	2,500,000	-	-	-	2,500,000	1,250,000	-	1,250,000
<b>Total</b>	<b>20,500,000</b>	<b>-</b>	<b>-</b>	<b>(5,000,000)</b>	<b>15,500,000</b>	<b>2,750,000</b>	<b>-</b>	<b>12,750,000</b>

\* The Net Charge Other column above includes those options that have lapsed.

## ← Note 5 Key Management Personnel Compensation continued

### (c) Shareholdings: Number of shares held by Key Management Personnel

30 June 2014	Balance 1.07.2013	Received as Compensation	Options Exercised	Net Charge Other*	Balance 30.06.2014
<b>Key Management Personnel</b>					
Mr Laurence Freedman	40,693,273	-	-	616,953	41,310,226
Mr Robert Schuitema	7,806,662	-	-	25,000	7,831,662
The Hon. Pam Allan	300,000	-	-	-	300,000
Mr Nigel Traill	3,555,074	-	-	-	3,555,074
Dr Sarah Groves	516,996	-	-	-	516,996
Mr Andrew Winks	426,087	-	-	-	426,087
<b>Total</b>	<b>53,298,092</b>	-	-	<b>641,953</b>	<b>53,940,045</b>

\* Net Charge Other refers to shares purchased or sold during the financial year.

Directors and senior executives who own shares and joined/resigned from the company during the year are also shown as in Net Charge Other.

30 June 2013	Balance 1.07.2012	Received as Compensation	Options Exercised	Net Charge Other*	Balance 30.06.2013
<b>Key Management Personnel</b>					
Mr Laurence Freedman	39,291,620	-	-	1,401,653	40,693,273
Mr Robert Schuitema	6,388,619	-	-	1,418,043	7,806,662
The Hon. Pam Allan	150,000	-	-	150,000	300,000
Mr Eddie Edmunds	1,090,909	-	-	(1,090,909)	-
Mr Nigel Traill	3,355,074	-	-	200,000	3,555,074
Dr Sarah Groves	190,909	-	-	326,087	516,996
Mr Andrew Winks	100,000	-	-	326,087	426,087
<b>Total</b>	<b>50,567,131</b>	-	-	<b>2,730,961</b>	<b>53,298,092</b>

## Note 6 Auditors Remuneration

	2014	2013
	\$	\$
Remuneration of the auditor of the parent entity for:		
- auditing or reviewing of the financial report	37,000	69,600
Remuneration of other auditors of subsidiaries for:		
- auditing or reviewing other financial report of subsidiaries	5,000	8,700

## Note 7 Earnings Per Share

### (a) Reconcillation of earnings to profit and loss

Consolidated Group		
	2014	2013
	\$	\$
Profit / (Loss)	(1,575,045)	(2,060,431)
Profit / (Loss) attributable to minority equity interest	7,633	59,040
Earnings used to calculate basic EPS	<b>(1,567,412)</b>	<b>(2,001,391)</b>
Earnings used in the calculation of dilutive EPS	<b>(1,567,412)</b>	<b>(2,001,391)</b>

### (b) Reconcillation of earnings to profit and loss

	\$	\$
Loss from continuing operations	(1,575,045)	(2,060,431)
Loss attributable to non-controlling interest in respect of continuing operations	7,633	59,040
Earnings used to calculate basic EPS from continuing operations	<b>(1,567,412)</b>	<b>(2,001,391)</b>
Earnings used in the calculation of dilutive EPS from continuing operations	<b>(1,567,412)</b>	<b>(2,001,391)</b>

### (c) Weighted average number of ordinary shares outstanding during the year used in calculating

	No.	No.
Weighted average number of shares	239,566,732	228,983,444
Weighted average number of options outstanding & shares issued by convertible notes	28,260,870	28,260,870
Weighted average number of ordinary shares outstanding during the year used in the calculation of EPS	<b>267,827,602</b>	<b>257,244,314</b>

Options with low probability of conversion at year end are not included in basic and dilutive EPS as the exercise of the options is unlikely. As at reporting date, conditions which would result in the exercise of the options and issue of shares had not been met.

## Note 8 Cash And Cash Equivalents

Consolidated Group			
	Note	2014	2013
		\$	\$
Cash at bank and in hand		248,490	409,760
Reconciliation of cash			
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the financial position as follows:			
Cash and cash equivalents		248,490	409,760
		<b>248,490</b>	<b>409,760</b>

The bank holds security over a cash deposit account of \$25,000 (2013:\$35,349) which bears an effective interest rate of 2.5% (2013: 2.5%).

## ← Note 9 Trade And Other Receivables

	Note	2014	2013
		\$	\$
<b>CURRENT</b>			
Trade receivables		92,870	54,742
Less provision for impairment	9 (a)	-	-
		<b>92,870</b>	<b>54,742</b>
Loans to related parties	24 (e)	34,375	102,100
Grant income receivable		275,000	316,000
		<b>309,375</b>	<b>418,100</b>
		<b>402,245</b>	<b>472,842</b>

(i) the loans to related parties were provided in relation to the purchase of shares in the parent entity. Refer details provided in Note 24(e).

### (a) Provision For Impairment of Receivables

Current trade receivables are generally on 30-60 day terms. Non-current trade and other receivables are assessed for recoverability based on the underlying terms of the contract. A provision for impairment is recognised when there is objective evidence that an individual trade or term receivable is impaired.

There has been no movement to the provision for impairment of receivables during the year (2013: \$ 0).

The following table details the consolidated entity's trade and other receivables exposed to credit risk with ageing analysis and impairment provided thereon. Amounts are considered "past due" when the debt has not been settled within the terms and conditions agreed upon between the consolidated entity and the customer or counterparty to the transaction. The balances of receivables that remain within initial trade terms, as detailed below, are considered to be of a high credit quality.

2014	Gross Amount \$000	Past Due and Impaired \$000	Past Due but Not Impaired (Days Overdue)				Within initial Trade Terms \$000
			<30 \$000	31-60 \$000	61-90 \$000	90> \$000	
Trade and other receivables	92,870	-	-	-	-	-	92,870
Other receivables	309,375	-	-	-	-	-	309,375
<b>Total</b>	<b>402,245</b>	-	-	-	-	-	<b>402,245</b>

  

2013							
Trade and other receivables	54,742	-	-	-	-	-	54,742
Other receivables	418,100	-	-	-	-	-	418,100
<b>Total</b>	<b>472,842</b>	-	-	-	-	-	<b>472,842</b>

## Note 10 Inventories

	2014	2013
	\$	\$
<b>CURRENT</b>		
<b>At cost</b>		
Raw materials and stores	-	35,128
Finished goods	132,971	323,329
	<b>132,971</b>	<b>358,457</b>

## Note 11 Parent Entity Information

The Parent Entity of the Consolidated Entity is Phoslock Water Solutions Limited.

### (a) Parent Entity Financial Information

	2014	2013
	\$	\$
Current assets	226	353
Non-current assets	3,963,013	4,158,055
<b>Total assets</b>	<b>3,963,239</b>	<b>4,158,408</b>
Current liabilities	(1,300,000)	(1,300,000)
Total liabilities	-	-
<b>Net assets</b>	<b>2,663,239</b>	<b>2,858,408</b>
Issued capital	(31,823,715)	( 31,823,715)
Treasury Stock	92,000	92,000
Share based payment reserve	(115,325)	( 31,745)
Accumulated lossess	29,183,801	28,905,052
<b>Total Equity</b>	<b>(2,663,239)</b>	<b>(2,858,408)</b>
Profit/(Loss) after income tax	(278,749)	( 101,757)
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>(278,749)</b>	<b>(101,757)</b>

Phoslock Water Solutions Ltd received shareholder approval to issue 1,300 15% Convertible Notes for \$1.3 million on 15 February, 2013 to Link Traders (Aust) Pty Ltd (a party related to Laurence Freedman) on normal commercial terms. The Convertible Notes are convertible into PHK shares at \$0.046 per share or repayable on 30 June 2014, at the option of the holder. The converting or repayment date has been varied subsequent to balance date. Please refer to Note 25 Events Subsequent To Balance Date.

The parent entity had entered into a Payment Indemnity Deed in respect of an accounts receivable that was sold to Link Traders (Aust) Pty Ltd under a factoring arrangement. The directors have assessed that the fair value of the financial guarantee is negligible as the arrangement is effective for only 21 days. The arrangement commenced on 23 June 2014 and ended on 15 July 2014.

## ← Note 11 Parent Entity Information continued

### (b) Controlled Entities of the Parent Entity

	Country of Incorporation	Percentage Owned (%)*	
		2014	2013
Subsidiaries of Phoslock Water Solutions Limited:			
Phoslock Pty Ltd	Australia	100	100
Phoslock Technologies Pty Ltd	Australia	100	100
Phoslock International Pty Ltd	Australia	100	100
IETC Environmental Protection Technology (Kunming) Ltd	China	71	71
Phoslock Water Solutions UK Co Ltd	United Kingdom	100	100
Phoslock Europe GmbH	Switzerland	60	60

\* IETC Environmental Protection Technology (Kunming) Ltd ("IETC") is in the process of being de-registered in China. Further information is also disclosed in Note 30 Contingent Liabilities.

## Note 12 Plant And Equipment

	2014	2013
	\$	\$
Plant and equipment, at cost	304,445	793,194
Less accumulated depreciation	(154,380)	(648,248)
	<b>150,065</b>	<b>144,946</b>

### (a) Movements in Carrying Amounts

Movements in the carrying amounts for plant and equipment ( including one motor vehicle\*) between the beginning and the end of the current financial year:

	Plant and Equipment	Total
	\$	\$
<b>Balance at 1 July 2013</b>	144,946	144,946
Additions	104,918	104,918
Disposals	(68,429)	(68,429)
Impairment charge (Motor Vehicle)	(1,153)	(1,153)
Depreciation Expense	(34,472)	(34,472)
Exchange differences	4,255	4,255
<b>Balance at 30 June 2014</b>	<b>150,065</b>	<b>150,065</b>

<b>Balance at 1 July 2012</b>	194,607	194,607
Additions	2,236	2,236
Disposals	-	-
Depreciation expense	(61,836)	(61,836)
Exchange differences	9,939	9,939
<b>Balance at 30 June 2013</b>	<b>144,946</b>	<b>144,946</b>

## Note 13 Intangible Assets

	2014	2013
	\$	\$
<b>Trademarks and licences</b>		
Cost	4,159,660	4,159,660
and impairment	(4,159,660)	(4,159,660)
Exchange differences	-	-
Net carrying value	-	-
<b>Development costs</b>		
Cost	323,740	323,740
and impairment	(323,740)	(323,740)
Net carrying value	-	-
<b>Total intangibles</b>	-	-

There has been no movement in the intangible assets for both 2014 and 2013 as such no movement schedule has been presented.

There is no amortisation on intangible assets for both 2014 and 2013 financial years as the intangibles have been fully impaired in 2011 (see following note).

### Impairment of Trademarks & Licences and Development Costs as at 30 June 2014

In 2011, the directors resolved to impair the carrying value of company's Intellectual Property (\$2,092,554) based on value in use calculation below. The company's Intellectual Property is core to the Phoslock business. The directors believe that the carrying value of the Intellectual Property does not affect the Phoslock business and that nothing has changed to the length of protection afforded to the company via its patents and trademarks. In future years the company will benefit through lower amortisation charges of approx. \$350,000 per annum (until 2017-18).

### Impairment Disclosures

The recoverable amount of each intangible asset is determined based on value-in-use calculations. Impairment testing on intangible assets is carried out annually, or when an impairment indicator exists.

Management has based the value-in-use calculations on expected volume forecasts for the remaining life of the Phoslock license. Existing cost and pricing structures have been applied to the volume forecasts. Volumes have been determined with reference to forecasts for each market and geographic segment of the business with due regard for existing and planned production capacity. Discount rates used have a 10% pre-tax premium and are adjusted to incorporate risks associated with a particular intangible asset.

Value in use calculation take into account an element of uncertainty associated with the conversion of the company's sales pipeline in future years.

## ← Note 14 Other Assets

	2014	2013
	\$	\$
<b>CURRENT</b>		
Prepayments	32,560	10,455
VAT deposit guarantee	30,149	28,632
	<b>62,709</b>	<b>39,087</b>

## Note 15 Trade And Other Payables

	2014	2013
	\$	\$
<b>CURRENT</b>		
Unsecured liabilities		
Trade payables	294,984	263,521
Sundry payables and accrued expenses	27,602	47,884
	<b>322,586</b>	<b>311,405</b>

## Note 16 Financial Liabilities

	2014	2013
	\$	\$
<b>CURRENT</b>		
Convertible Notes (secured)	1,300,000	1,300,000
Related party borrowings (secured)	983,507	-
Related party subordinated loan (unsecured)	284,628	277,402
	<b>2,568,135</b>	<b>1,577,402</b>

The unsecured Convertible Notes, Borrowings and Subordinated Loan are with related parties. Details of the related parties are disclosed in Note 24.

## Note 17 Provisions

	2014	2013
	\$	\$
<b>CURRENT</b>		
<b>Employee Entitlements</b>		
Opening Balance at 1 July	203,881	204,631
Additional provisions	61,060	72,614
Amounts used	(20,153)	(73,364)
<b>Balance at 30 June</b>	<b>244,788</b>	<b>203,881</b>

	2014	2013
	\$	\$
<b>NON CURRENT</b>		
<b>Employee Entitlements</b>		
Opening Balance at 1 July	104,642	121,780
Additional provisions	2,687	14,558
Amounts used	-	(31,696)
<b>Balance at 30 June</b>	<b>107,329</b>	<b>104,642</b>

	2014	2013
	\$	\$
<b>Analysis of Total Provisions</b>		
Current	244,788	203,881
Non-current	107,329	104,642
	<b>352,117</b>	<b>308,523</b>

### Non-current employee entitlements

Non-current employee entitlements relates to employees' long service leave estimated using the present value of future cash flows of long service leave discounted by the probability that the leave will be taken. Probability is guided by the Company's history of leave taken. The measurement and recognition criteria relating to employee benefits has been included in Note 1 (v) to this report.

## ← Note 18 Issued Capital

	2014	2013
	\$	\$
237,566,732 fully paid ordinary shares (2013: 237,566,732)	31,731,715	31,731,715
	<b>31,731,715</b>	<b>31,731,715</b>

### (a) Ordinary Shares

	2014	2014	2013	2013
	No.	\$	No.	\$
At the beginning of reporting year	237,566,732	31,731,715	213,530,580	30,632,302
Shares issued during the year:				
- 18 February 2013	-	-	23,166,587	1,065,663
- 26 February 2013	-	-	2,869,565	132,000
Held as treasury	-	-	(2,000,000)	( 92,000)
Transaction Costs	-	-	-	( 6,250)
<b>Balance at the end of the year</b>	<b>237,566,732</b>	<b>31,731,715</b>	<b>237,566,732</b>	<b>31,731,715</b>

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholder meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

**(b) Options**

- (i) For information relating to Phoslock Water Solutions Limited Employee Options Plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end, refer to Note 5 Key Management Personnel Compensation, Note 23 Share-based Payments and the remuneration report.
- (ii) For information relating to share options issued to key management personnel during the financial year, refer to Note 5 Key Management Personnel Compensation, Note 23 Share-based Payments and the remuneration report.

**(c) Capital Management**

Management control the capital of the group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the group can fund its operations and continue as a going concern.

The group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

Management effectively manages the group's capital by assessing the groups financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels and share issues.

The Company received shareholders approval on 15 February 2013 to convert the debt facility of \$1.3 million with an original scheduled maturity of 29 March 2013 into Convertible Notes through the issue of 1,300 Convertible Notes with a face value of \$1,000 each. Interest is payable monthly at a rate of 15% pa. The holder of the Notes has the option to convert each Note into 21,739 fully paid Ordinary Shares or be repaid in full on the maturity date. The gearing ratio's for the year ended 30 June 2014 and 30 June 2013 are as follows:

	<b>Note</b>	<b>2014</b>	<b>2013</b>
		<b>\$</b>	<b>\$</b>
Total borrowings	15, 16	2,890,721	1,888,807
Less cash and cash equivalents	8	(248,490)	(409,760)
Net debt		2,642,230	1,479,047
Total equity		(2,221,358)	(736,889)
Total assets		<b>1,021,480</b>	<b>1,460,441</b>
Gearing ratio		119%	201%

**Note 19 Reserves****(a) Foreign Currency Translation Reserve**

The foreign currency translation reserve records exchange differences arising on translation of foreign subsidiaries.

**(b) Option Reserve**

The option reserve records items recognised as expenses on valuation of employee share options. Options were issued during FY2013. An option expense of \$83,580 was recorded for FY 2013-14 for Employee benefit expenses. This amount was also credited to the Option reserve (see Consolidated Statement of Changes in Equity).

## ← Note 20 Commitments

	2014	2013
	\$	\$
<b>a) Finance Lease Commitments</b>		
The Group does not have any finance lease commitments		

	2014	2013
	\$	\$
<b>b) Operating Lease Commitments</b>		
Non-cancellable operating lease		
Payable - minimum lease payments		
- not later than 12 months	81,000	44,658
- between 12 months and 5 years	101,250	-
- greater than 5 years	-	-
	<b>182,250</b>	<b>44,658</b>

The non-cancellable lease relates to the leased Sydney office premise expiring 30 September, 2016. Rent is payable monthly in advance.

## Note 21 Segment Reporting

### Segment Information

#### Identification of reportable segments

The group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The group is managed primarily on the basis of geographical areas – Australia/NZ, Europe/UK, North America and Asia. The Group's operations inherently have similar profiles and performance assessment criteria.

#### Types of products and services by segment

The sale of Phoslock granules and application services and lake restoration consulting services is the main business of the Group. These products and services are provided on a geographical basis with offices and representation in each of the company's four key geographical areas - Australia/NZ, Europe/UK, North America and Asia.

#### Basis of accounting for purposes of reporting by operating segments

##### Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

##### Inter-segment transactions

An internally determined transfer price is set for all inter-entity sales. This price is based on what would be realised in the event the sale was made to an external party at arm's-length. All such transactions are eliminated on consolidation for the Groups financial statements.

Corporate charges are allocated to reporting segments based on the segments' overall proportion of revenue

generation within the Group. The Board of Directors believes this is representative of likely consumption of head office expenditure that should be used in assessing segment performance and cost recoveries. Inter-segment loans payable and receivable are initially recognised at the consideration received net of transaction costs and then revalued to the exchange rate used at the end of the current accounting period.

#### Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Unless indicated otherwise in the segment assets note, investments in financial assets, deferred tax assets and intangible assets have not been allocated to operating segments.

#### Segment liabilities

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

#### Unallocated items

The following items of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- net gains on disposal of available-for-sale investments;
- income tax expense;
- deferred tax assets and liabilities;
- intangible assets.

## ← Note 21 Segment Reporting continued

### (i) Segment performance

	Australia/NZ	Europe/UK	North America	Asia	Total	Eliminations	Total
<b>Twelve months ended 30 June 2014</b>							
<b>Revenue</b>							
External sales	76,800	398,427	568,851	60,083	1,104,161	-	1,104,161
Inter-segment sales	207,002	31,833	-	44,985	283,820	(283,820)	-
Other revenue	308,350	-	-	-	308,350	-	308,350
<b>Total segment revenue</b>	<b>592,152</b>	<b>544,445</b>	<b>568,851</b>	<b>105,068</b>	<b>1,696,331</b>	<b>(283,820)</b>	<b>1,412,511</b>
Reconciliation of segment revenue to group revenue							1,981
<b>Total group revenue</b>							<b>1,414,492</b>
<b>Segment loss before tax</b>	<b>(813,804)</b>	<b>83,632</b>	<b>52,135</b>	<b>(41,352)</b>	<b>(719,389)</b>	<b>9,591</b>	<b>(728,980)</b>
Reconciliation of segment result to group net profit/(loss) before tax							
Amounts not included in segment result but reviewed by the board:							
- Depreciation and amortisation					-	-	(34,472)
Unallocated items:							
- Corporate charges							(519,382)
- Finance costs							(292,211)
<b>Loss before income tax from continuing operations</b>							<b>(1,575,045)</b>
<b>Twelve months ended 30 June 2013</b>							
<b>Revenue</b>							
External sales	76,800	508,402	703,232	24,910	1,313,344	-	1,313,344
inter-segment sales	254,244	36,043	-	-	290,287	(290,287)	-
Other revenue	312,732	-	-	-	312,732	-	312,732
<b>Total segment revenue</b>	<b>643,776</b>	<b>544,445</b>	<b>703,232</b>	<b>24,910</b>	<b>1,916,363</b>	<b>(524,900)</b>	<b>1,626,076</b>
Reconciliation of segment revenue to group revenue							3,874
Total group revenue							1,629,950
<b>Segment loss before tax</b>	<b>(1,085,780)</b>	<b>93,275</b>	<b>54,913</b>	<b>(89,537)</b>	<b>(1,027,130)</b>	<b>-</b>	<b>(1,027,130)</b>
Profit/(loss) before tax							
Amounts not included in segment result but							
- Depreciation and amortisation	-	-	-	-	-	-	(61,836)
Unallocated items:							
- Corporate charges							(726,880)
- Finance costs							(244,585)
<b>Loss before income tax from continuing operations</b>							<b>(2,060,431)</b>

**(ii) Segment assets**

	Australia/NZ	Europe/UK	North America	Asia	Total	Eliminations	Total
30 June 2014	\$	\$	\$	\$	\$	\$	\$
<b>Segment assets</b>	2,505,214	85,503	-	103,067	2,693,784	(1,672,304)	1,021,480
Unallocated assets - intangibles							-
<b>Total group assets</b>							<b>1,021,480</b>
30 June 2013							
<b>Segment assets</b>	6,372,687	151,047	-	113,300	6,637,034	(5,084,623)	1,552,411
Unallocated assets - intangibles							-
<b>Total group assets</b>							<b>1,552,411</b>

**(iii) Segment liabilities**

	Australia/NZ	Europe/UK	North America	Asia	Total	Eliminations	Total
30 June 2014	\$	\$	\$	\$	\$	\$	\$
<b>Segment liabilities</b>	2,946,766	993,749	-	277,254	4,217,768	(974,930)	3,242,838
Unallocated liabilities							-
<b>Total group liabilities</b>							<b>3,242,838</b>
30 June 2013							
<b>Segment liabilities</b>	5,334,411	1,061,539	-	400,970	6,796,920	(4,599,589)	2,197,330
Unallocated liabilities							-
<b>Total group liabilities</b>							<b>2,197,330</b>

**(iv) Major customers**

The Group has a number of customers to which it provides both products and services. The Group's largest external customer accounts for 35% of external revenue (2013:35%)

## Note 22 Cash Flow Information

	2014	2013
Reconciliation of net cash from operating activities to operating profit after income tax	\$	\$
Net loss after income tax	(1,575,045)	(2,060,431)
<b>Cash flows excluded from loss attributable to operating activities</b>		
Depreciation	34,472	(61,836)
Net exchange differences	178,404	390,411
Impairment of fixed assets	1,153	-
Gain on disposal of fixed assets	(18,495)	-
<b>Change in assets/liabilities</b>		
(Increase)/decrease in trade and term receivables	70,597	256,604
(Increase)/decrease in prepayments	(23,622)	17,404
(Increase)/decrease in inventories	225,486	271,603
Increase/(decrease) in trade payables and accruals	11,181	25,361
Increase/(decrease) in provisions	43,594	(17,888)
<b>Cash flow used in operating activities</b>	<b>(1,052,275)</b>	<b>(1,178,772)</b>

## ← Note 23 Share-Based Payments

At 30 June 2014 the Group has the following share-based payment schemes:

### a) Phoslock Water Solutions Limited Employee Options Plan

The Employee Plan is designed as an incentive for senior managers and above. Under the plan, participants are granted options which only vest if certain performance standards are met. Once granted the options have a vesting period of 2 years and employees may exercise the options for a further 2 years after the vesting date.

There are no cash settlement alternatives.

### b) Phoslock Water Solutions Limited Incentive Options Plan

The Incentive Plan is designed as a sales incentive for the sale and commercialisation of Phoslock and is open to approved individuals, including non-employees of the

Group. Under the plan, participants are granted options which only vest if certain performance standards are met. Once granted the options have a vesting period of 2 years and employees may exercise the options for a further 2 years after the vesting date. There are no cash settlement alternatives. Under either plan, where a participant ceases employment prior to the vesting of their share options, the share options are forfeited unless cessation of employment is due to death.

There were no new share-based payments transactions made during the year (2013: 21,100,000 share options granted). All options granted are for ordinary shares in Phoslock Water Solutions Limited which confer a right of one ordinary share for every option held. The options hold no voting or dividend rights and are not transferable.

The following is a table reconciling the movements of share options during the year ended 30 June 2014:

	2014		2013	
	Number of options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
		\$		\$
Outstanding at the beginning of the year	21,100,000	0.10	150,000	0.15
Granted	-	0.00	21,100,000	0.10
Forfeited	(5,000,000)	0.10	-	0.00
Exercise	-	0.00	-	0.00
Expired	-	0.00	(150,000)	0.15
<b>Outstanding at year-end</b>	<b>16,100,000</b>	<b>0.10</b>	<b>21,100,000</b>	<b>0.10</b>
<b>Exercisable at year-end</b>	<b>3,050,000</b>	<b>0.10</b>	<b>-</b>	<b>0.10</b>

The options outstanding at 30 June 2014 had a weighted average exercise price of \$0.104 and a weighted average remaining contractual life of 1.6 years.

Share-based payment expense of \$83,580 (2013: \$31,745), was recognised in the profit and loss as these options have met their vesting conditions. Options that are not exercised by the designated expiry date automatically expire. Options will be forfeited when specified performance conditions

attached to the options are not met. The value of options forfeited during the year were \$5,411 (2013: \$0).

All share options were valued at grant date using a Black-scholes option-pricing methodology.

Details of the share-based payments held by key management personnel are included in Note 5.

## Note 24 Related Parties

All transactions between related parties are on normal commercial terms and conditions no more favorable than those available to other parties unless otherwise stated.

Information in respect of parent entity and subsidiaries are contained in Note 11.

	2014	2013
	\$	\$
<b>(a) Key Management Personnel Compensation</b>		
Details of key management personnel compensation are included in Note 5 and the remuneration report.		
Transaction with related parties:		
<b>(b) Relatives of Specified Executives</b>		
Margaret Schuitema – part time employment (1)	60,000	60,000
Yolanda Winks – part time employment (2)	30,000	30,000
Ben Schuitema – part time employment (1)	18,495	20,240
Tayla Edmunds – part time employment (3)	-	15,000
Martin Schuitema – part time employment (1)	23,720	23,805
<b>(c) Transactions with related parties</b>		
Link Traders (Aust) Pty Ltd – interest on loans (4) (12)	288,874	244,585
Sail Ahead Pty Ltd – interest on loans (1) (14)	3,296	-
Radar Group Pty Ltd – investor relations, web design and web services (5)	38,850	52,983
Contribution to self-managed superannuation funds managed by related parties	36,047	36,053
<b>(d) Transactions with other related parties</b>		
Bentophos GmbH - purchase of inventory	71,000	-
Bentophos GmbH - subordinated loan to Phoslock Europe GmbH	7,226	47,016
Bentophos GmbH is a major business partner and currently holds 40% interest in subsidiary Phoslock Europe GmbH		
<b>(e) Balances with related parties</b>		
Robert Schuitema – loan from Phoslock Pty Ltd (6)	34,375	82,500
Nigel Traill – loan from Phoslock Pty Ltd (7)	-	4,600
Andrew Winks – loan from Phoslock Pty Ltd (8)	-	7,500
Dr Sarah Groves – loan from Phoslock Pty Ltd (9)	-	7,500
Link Traders (Aust) Pty Ltd – Convertible Notes (4) (11)	1,300,000	1,300,000
Link Traders (Aust) Pty Ltd – loan to Phoslock Pty Ltd (4) (13)	823,507	-
Sail Ahead Pty Ltd – loan to Phoslock Pty Ltd (1) (14)	160,000	-
Bentophos GmbH - subordinated loan to Phoslock Europe GmbH	284,628	277,402

(1) related party of Robert Schuitema

(2) related party of Andrew Winks

(3) related party of Eddie Edmunds

(4) Laurence Freedman is a director of this company

(5) related party of Laurence Freedman

(6) two loans granted for the acquisition of 1,826,746 Phoslock shares. One loan was fully repaid by 30 November 2013 with the remaining due 30 September 2014; interest rates - 0%

(7) loan granted for the acquisition of 200,000 Phoslock shares. The loan repaid in full by 30 November, 2013; interest rate – 0%

(8) loan granted for the acquisition of 326,746 Phoslock shares. The loan repaid in full by 30 November, 2013; interest rate – 0%

(9) loan granted for the acquisition of 326,746 Phoslock shares. The loan repaid in full by 30 November, 2013; interest rate – 0%

(11) Convertible Notes issued by Phoslock Water Solutions Ltd convertible/ repayable by 30 June, 2016; interest rate – 15%

(12) interest paid on loans, debt factoring to Phoslock Pty Ltd and Convertible Notes to Phoslock Water Solutions Ltd

(13) loan to Phoslock Pty Ltd repayable by 31 December, 2014

(14) Robert Schuitema is a director of this company

## ← Note 25 Events Subsequent To Balance Date

Subsequent to balance date, the converting or repayment date of the Convertible Notes was varied through a Deed Poll - Further Variation (approved in a General Meeting on 18 July 2014) to 30 June 2016. There were no other changes to the terms or conditions.

5 million share options in PHK shares at an exercise price of \$0.053 per share has been issued to Link Traders (Aust) Pty Ltd as consideration. The Convertible Notes is presented as a current liability in accordance with the presentation requirement of the accounting standard.

## Note 26 Going Concern

The consolidated entity has incurred a significant loss after income tax of \$1,575,045 (2013 \$2,060,431), for the year ended 30 June 2014 in respect of the principal activities relating to the commercialisation of Phoslock. The consolidated entity has accumulated losses of \$34,253,628 (2013 : \$32,686,216) as at 30 June 2014. The company has net liabilities of \$2,221,358 (2013: \$736,889), \$1.3 million of Convertible Notes maturing in June 2016 and short-term secured related party loans totalling \$983,507.

Revenue for 2014 amounted to \$1,414,491 (2013: \$1,629,950), which was significantly less than management's forecast of between \$3 -5 million. The reduced sales in the current year have had an impact on the company's cashflow and operating performance. The total liabilities of the company as at 30 June 2014 totalled \$3,242,838 is made up of trade creditors \$294,984 (2013: 263,521) employee entitlements accrued \$352,117 (2013:\$308,523), subordinated loan from Bentophos GmbH to Phoslock Europe of \$284,628 (2013: \$277,402), Convertible Notes of \$1,300,000 (2013: \$1,300,000) and short-term loans of \$983,507 (2013: \$0). At balance date, the company has cash reserves of \$248,490 (2013: \$409,760).

The above matters create a material uncertainty that may cast significant doubt as to the ability of the company to continue as a going concern and, therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The directors have prepared the financial report of the consolidated entity on the going concern basis, which assumes that the company will be able to discharge its liabilities and realise its assets in the ordinary course of business. The key underlying assumption of the directors in preparing the report on the going concern basis are:

- the consolidated entity has prepared detailed cash flow forecasts and assumptions for the period

ending 12 months after the date of this report, and the directors consider that the cash flow forecasts are reasonable in the circumstances to support the Company's continued going concern. The detailed cash flows, which reflect the detailed assumptions below, indicate a forecast cash balance of \$1,243,000 from the issuing of the financial report. This includes additional equity of up to A\$1.0m to fund the inventory build-up for larger contracts, which are forecast to occur in FY2014-15.

- the budget for the period August 2014 to September 2015 approved by the directors, which underpins the abovementioned cash flow forecasts, is dependent on sales revenue of \$6.7 million, product purchases of \$3.8 million, and operating costs of \$2.0 million, at the same gross margin as the previous year. Implicit in the sales forecast is one major contract for 1,200 tonnes for which cash flows forecasted from October 2014 to September 2015.
- this level of revenue would generate slightly positive cash flows from operations and earnings before interest, income tax, depreciation and amortisation and an estimated consolidated net profit of \$1 million.
- the consolidated entity's \$1.3 million Convertible Notes mature on 30 June, 2016. At this stage the holder has made no decision to convert the Notes into PHK Shares or request repayment. The maturity date of the Convertible Notes is 22 months from the date of this report.

Achieving the forecast budget, including the collection of trade receivables at 30 June 2014, will ensure the company has sufficient funds from existing cash and assets, and generated by operations in the next 12 months to meet its liabilities. Any reduction in sales or an inability to renegotiate the secured loan facilities will require the board to consider capital funding.

The Group has forecast cash operating costs of \$2.0 million. The Group has the ability to contain these costs within the limits set.

The Directors will continue to monitor the Group's progress against the cash flow forecasts on a regular basis. The company, and its licensees, are currently working on 40 separate projects (each greater than \$50,000) in our key markets (4 in Australia, 16 in Europe/UK, 4 in Asia, 13 in North America and 3 in central/south America) with sales decisions on a large number of these projects due over the next 12 months. In addition, the company is working on 9 projects with application sizes in 1,000-20,000 plus ton range (2013: 4 projects).

The Company may undertake an equity raising in FY 2014-15 however no decision has been made regarding the amount, the timing, structure of any offering or whether it would be targeted towards existing equity holders or new equity holders (Australian or international), including strategic partners. If key items underpinning the cashflow forecast are not realised, the consolidated entity may need to raise capital in FY2014-15. The directors consider that any capital raising activities which are required to fund operating cash flow shortages will be successful based on the company's prior capital raising initiatives.

## Note 27 Financial Risk Management

### (a) Financial Risk Management Policies

This note discloses the Group's objectives, policies and processes for managing and measuring these risks. The Group's overall risk management plan seeks to minimise potential adverse effects due to the unpredictability of financial markets. The Group does not speculate in financial assets.

#### Financial Risk Exposure Management

Risk management is carried out by the Group's risk management committee under the delegated power from the Board of Directors. The Chief Financial Officer has primary responsibility for the development of relevant policies and procedures to mitigate the risk exposure of the Group, these policies and procedures are then approved by the risk management committee and tabled at the board meeting following their approval. The main risks the group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk.

#### Interest rate risk

The consolidated group's exposure to interest rate risk, which is the risk that a financial instruments value will fluctuate as a result of changes in market interest rates is detailed at Note 27 (b). The groups debt exposure is not subject to fluctuating interest rates.

#### Foreign currency risk

The group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the group's measurement currency. In particular the US dollar and European Euro. This risk is managed by the maintenance of foreign currency denominated bank accounts. Refer to Note 27 (b) for further details.

#### Liquidity risk

Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as they fall due. The consolidated entity's approach to managing liquidity risk is to ensure, that as far as possible, it will always have sufficient liquidity to meet its liabilities when due. The group manages liquidity risk by closely monitoring forecast cash flows and ensuring that adequate access to cash facilities are maintained.

#### Credit risk

Credit risk is the exposure to financial loss by the consolidated entity if a customer fails to meet its contractual obligation and arises from the consolidated entity's trade receivables. During the year the consolidated group entered into a factoring arrangement with a related party for the accounts receivable of a major customer. The factoring was in place for 15 days and hence the fair value would not be material.

Credit risk is managed on a group basis and reviewed on a monthly basis by the board and management. All potential customers are rated for credit worthiness taking into account their size, market position and financial standing. Customers that do not meet the group's strict credit policies may only purchase on a cash basis.

### (b) Financial Instruments

#### Financial Instrument Composition and Maturity Analysis

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. As such the amounts may not reconcile to the consolidated statement of financial position.

## ← Note 27 Financial Risk Management Continued

Fixed Interest Rate Maturing							
	Weighted Average Effective Interest Rate	Floating Interest Rate	Within 1 Year	1 to 5 Years	Over 5 Years	Non- interest bearing	Total
2014	%	\$	\$	\$			
<b>Financial Assets</b>							
Cash and cash equivalents	2.5%	248,490	-	-	-	-	248,490
Trade and other receivables		-	-	-	-	402,245	402,245
Other financial assets		-	25,000	-	-	-	25,000
<b>Total Financial Liabilities</b>		<b>248,490</b>	<b>25,000</b>	-	-	<b>402,245</b>	<b>675,735</b>

Fixed Interest Rate Maturing							
	Weighted Average Effective Interest Rate	Floating Interest Rate	Within 1 Year	1 to 5 Years	Over 5 Years	Non- interest bearing	Total
2013	%	\$	\$	\$			
<b>Financial Assets</b>							
Cash and cash equivalents	2.5%	409,760	-	-	-	-	409,760
Trade and other receivables		-	-	-	-	472,842	472,842
Other financial assets		-	35,349			-	35,349
<b>Total Financial Liabilities</b>		<b>409,760</b>	<b>35,349</b>	-	-	<b>472,842</b>	<b>917,951</b>

Fixed Interest Rate Maturing							
	Weighted Average Effective Interest Rate	Floating Interest Rate	Within 1 Year	1 to 5 Years	Over 5 Years	Non- interest bearing	Total
2014	%	\$	\$	\$			
<b>Financial Liabilities</b>							
Trade and sundry payables	0%	-	-	-	-	322,586	322,586
Convertible Notes	15%	-	1,300,000	-	-	-	1,300,000
Borrowings	10%	-	983,507	-	-	-	983,507
Subordinated Loan	0%	-	-	-	-	284,628	284,628
<b>Total Financial Liabilities</b>		-	<b>2,283,507</b>	-	-	<b>607,214</b>	<b>2,890,721</b>

Fixed Interest Rate Maturing							
	Weighted Average Effective Interest Rate	Floating Interest Rate	Within 1 Year	1 to 5 Years	Over 5 Years	Non- interest bearing	Total
2013	%	\$	\$	\$			
<b>Financial Liabilities</b>							
Trade and sundry payables	0%	-	-	-	-	311,405	311,405
Convertible Notes	15%	-	1,300,000	-	-	-	1,300,000
Subordinated Loan	0%	-	-	-	-	277,402	277,402
<b>Total Financial Liabilities</b>		-	<b>1,300,000</b>	-	-	<b>588,807</b>	<b>1,888,807</b>

**Financial liabilities are expected to be paid as follows:**

	2014	2013
	\$	\$
Less than 6 months	322,586	311,405
6 months to 1 year	2,283,507	1,300,000
1-5 years	-	-
over 5 years	284,628	277,402
	<b>2,890,721</b>	<b>1,888,807</b>

**(ii) Net Fair Values**

The net fair values of other assets and liabilities approximate their carrying value. Refer Note 28 below for the Group's Fair Value Measurement details.

**(iii) Sensitivity analysis****Interest Rate Risk and Foreign Currency Risk**

The group has performed sensitivity analysis relating to its exposure to interest rate risk and foreign currency risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

**Interest Rate Sensitivity Analysis**

As at 30 June 2014, the effect on profit and equity as a result of changes in the interest rate on Cash and cash equivalents, with all other variables remaining constant would be as follows:

	2014	2013
	\$	\$
<b>Change in profit</b>		
- Increase in interest rate by 1%	4,975	5,000
- Decrease in interest rate by 1%	(4,975)	(5,000)
<b>Change in equity</b>		
- Increase in interest rate by 1%	4,975	5,000
- Decrease in interest rate by 1%	(4,975)	(5,000)

**Foreign Currency Risk and Sensitivity Analysis**

As at 30 June 2014, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the US Dollar on sales with all other variables remaining constant is as follows:

	2014	2013
	\$	\$
<b>Change in profit</b>		
- Improvement in AUD to USD by 10%	(169,633)	(191,636)
- Decline in AUD to USD by 10%	169,633	191,636
<b>Change in equity</b>		
- Improvement in AUD to USD by 10%	(169,633)	(191,636)
- Decline in AUD to USD by 10%	169,633	191,636

## ← Note 27 Financial Risk Management Continued

As at 30 June 2014, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the Euro on sales of EU1,000,000 with all other variables remaining constant is as follows:

	2014	2013
	\$	\$
<b>Change in profit</b>		
- Improvement in AUD to Euro by 10%	(43,026)	(54,445)
- Decline in AUD to Euro by 10%	43,026	54,445
<b>Change in equity</b>		
- Improvement in AUD to Euro by 10%	(43,026)	(54,445)
- Decline in AUD to Euro by 10%	43,026	54,445

The above interest rate and foreign exchange rate risk sensitivity analysis has been performed on the assumption that all other variables remain unchanged.

## Note 28 Fair Value Measurement

AASB 13 Fair Value Measurement requires all assets and liabilities measured at fair value to be assigned to a level in the fair value hierarchy as follows:

- LEVEL 1 Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
- LEVEL 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- LEVEL 3 Unobservable inputs for the asset or liability.

The Group has no assets that are measured at fair value (2013: \$ 0).

## Note 29 Company Details

The registered office and principal place of business of the company is:

Phoslock Water Solutions Limited  
Suite 403, 25 Lime Street  
Sydney NSW 2000

## Note 30 Contingent Liabilities

### IETC Environmental Protection Technology (Kunming) Ltd ("IETC")

The Group is currently winding-up its foreign subsidiary, IETC Environmental Protection Technology (Kunming) Ltd ("IETC"), a company incorporated in China after concluding that the Group's manufacturing needs is better served through a toll manufacturer provider.

IETC has ceased production effective 1 January 2014 and is in the process of reducing staff and paying off all its debts with the objective of de-registering within the FY 2014-15. There were no sales for the 6 months period from 1 January 2014 to 30 June 2014, all staff has been terminated as of 30 June 2014 and the company has been dormant during this period.

Subsequent to year end, local IETC management provided an estimate of additional payment of RMB609,000 (AUD104,000) as is necessary to completely de-register IETC. The estimate is inclusive of remaining unpaid employee benefits of RMB128,000 (AUD22,000) that is already included in IETC as of 30 June 2014. In addition, the Group has provided for \$35,000 to cover all known obligations including compulsory statutory employee related expenses, local taxes and de-registration related costs. The directors has assessed the remaining amount of AUD47,000 as a contingent liability related to the process of winding-up and deregistering IETC that will occur during the FY2014-15.

The directors of the Group consider that all obligations have been met to 30 June 2014.

## Director's Declaration



### In the Directors' opinion:

1. the consolidated financial statements and notes, as set out on pages 26 to 62, and the remuneration report on pages 15 to 19 of the directors' report, are in accordance with the Corporations Act 2001 including:

(a) giving a true and fair view of the financial position as at 30 June 2014 and of the performance for the financial year ended on that date of the Group; and

(b) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

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

Note 1 confirms that the consolidated financial statements is in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The declaration is made in accordance with a resolution of the Board of Directors.

A handwritten signature in black ink, appearing to read "R. Schuitema".

**Robert Schuitema**

Managing Director

Dated this 28th day of August 2014  
Sydney

A handwritten signature in black ink, appearing to read "Pam Allan".

**The Hon. Pam Allan**

Non-Executive Director - Chairman of Audit Committee

Dated this 28th day of August 2014  
Sydney



### Worldwide Head Office

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## Independent Auditor's Report



**W.W.Vick & Co.**  
*Chartered Accountants*

W.W. VICK & CO.  
ABN 14 568 923 714  
5th floor, Fayworth House  
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To the members of Phoslock Water Solutions Limited

### Report on the Financial Statements

We have audited the accompanying financial report of Phoslock Water Solutions Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 30 comprising a summary of significant accounting policies and other explanatory notes and the directors' declaration for Phoslock Water Solutions Limited (the consolidated entity), comprising of the company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.



## W.W.Vick & Co.

*Chartered Accountants*

W.W. VICK & CO.  
ABN 14 568 923 714  
5th floor, Fayworth House  
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[www.wwvick.com.au](http://www.wwvick.com.au)

### Audit Opinion

In our opinion the financial report of Phoslock Water Solutions Limited is in accordance with

(a) the Corporations Act 2001, including:

- i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
- ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

### Emphasis of Matter

#### Material uncertainty regarding continuation as a going concern

We draw attention to Note 26 in the financial report which indicates that the consolidated entity incurred a net loss of \$1,575,045 during the year ended 30 June 2014, has accumulated losses totalling \$34,253,628, a net current liability position of \$2,289,095 and net cash used in operating activities of \$1,052,275 as at 30 June 2014. These conditions, along with other matters disclosed in Note 26, indicates the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, whether it will be able to realise its assets and discharge its liabilities in the normal course of business.

### Report on the Remuneration Report

We have audited the remuneration report included in pages 15 to 19 of the directors' report for the year ended 30 Jun 2014. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

#### Audit Opinion

In our opinion, the remuneration report of Phoslock Water Solutions Limited for the year ended 30 June 2014 complies with section 300A of the Corporations Act 2001.

5th Floor  
379-383 Pitt Street  
Sydney NSW 2000

Dated: 28 August 2014

W. W. Vick & Co.  
Chartered Accountants

Phillip Jones - Partner

# Shareholder Information

The shareholder information set out below was applicable as at 26 September, 2014.

## A. Distribution of Equity Securities

Analysis of number of equity holders by size of holding:

Spread of Holding	Number of Holders	Number of Shares	% of Total Issued Capital
1 to 1,000	40	20,800	0.01%
1,001 to 5,000	139	333,690	0.14%
5,001 to 10,000	122	1,023,500	0.43%
10,001 to 100,000	580	16,750,980	6.99%
100,001 to 100,000,000	287	221,437,762	92.43%
<b>Total</b>	<b>1,168</b>	<b>239,566,732</b>	<b>100.00%</b>

The number of shareholders holding less than a marketable parcel (\$500) of shares is 449 (12,500 shares)

## B. Voting Rights

At a general meeting of shareholders:

- On a show of hands, each person who is a member or sole proxy has one vote
- On a poll, each shareholder is entitled to one vote for each fully paid share a poll, each shareholder is entitled to one vote for each fully paid share

## C. Equity Security Holders

The names of the twenty largest quoted equity security holders are listed below:

Shareholder	Number of Shares	% of Total Issued Capital
Link Traders (Aust) Pty Ltd	41,310,226	17.24%
Evan Clucas & Leanne Weston	14,935,110	6.23%
Newvest Pty Ltd	10,990,224	4.59%
Ludgate Environmental Fund Ltd	9,995,000	4.17%
UBS Wealth Management	8,168,555	3.41%
Sail Ahead Pty Ltd	7,931,662	3.31%
Quizete Pty Ltd	6,679,900	2.79%
Graham Gibson	4,117,774	1.72%
Paul & Lorraine Cazyer	3,891,002	1.62%
David Colbarn	3,718,000	1.55%
Nigel Traill	3,555,074	1.48%
Colowell Pty Ltd	3,243,933	1.35%
LesWeeks Pty Ltd	3,026,674	1.26%
Tenrub Pty Ltd	2,293,736	0.96%
David & Debra Newton	2,242,200	0.94%
Dr David Garman	2,027,273	0.85%
Adrian Brant	1,959,087	0.82%
Judith Lipscombe	1,949,000	0.81%
Sharky Holdings Pty Ltd	1,900,000	0.79%
Agio Capital Corporation Ltd	1,834,742	0.77%
<b>Total</b>	<b>135,769,172</b>	<b>56.67%</b>
<b>Total Shares Issued</b>	<b>239,566,732</b>	<b>100.000%</b>

## D. Substantial Shareholders

Substantial shareholders (> 5% of shares held) in the Company are listed below:

Shareholder	Number of Shares	% of Total Issued Capital
Link Traders (Aust) Pty Ltd	41,310, 226	17.24%
Evan Clucas & Leanne Weston	14,935,110	6.23%
<b>Total</b>	<b>56,245,336</b>	<b>23.48%</b>

## E. Unquoted Securities

Substantial shareholders (> 5% of shares held) in the Company are listed below:

	Number of Options	Number of Option Holders
Total number of unquoted options outstanding as at 25 September, 2014	21,100,000	7
<b>There are one significant (&gt;20%) holder of unquoted security</b>		
<b>Option holder</b>		
Robert Schuitema	10,000,000	
Link Traders (Aust) Pty Ltd	5,000,000	

	Number of Convertible Notes	Number of Note Holders
Total number of unquoted convertible notes outstanding as at 26 September, 2014	1,300	1
Each convertible note has a face value of \$10,000 per note		
<b>There is one significant (&gt;20%) holder of unquoted security</b>		
<b>Converting note holder</b>		
Link Traders (Aust) Pty Ltd	1,300	

## Important Note to Shareholders

To change your address or any other details relating to your shareholding in Phoslock, you must contact the Share Registrar – Computershare on 02 8234 5000 or [web.queries@phoslock.com.au](mailto:web.queries@phoslock.com.au)



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