

**Phoslock Water Solutions Limited and Controlled Entities**  
**A.B.N. 88 099 555 290**  
**APPENDIX 4E**  
**PRELIMINARY FINAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**Previous Corresponding Reporting Period**      **30-Jun-14**

**Results for announcement to the market:**

				<b><u>\$A'000</u></b>
Revenues from ordinary activities	down	17%	to	1,185
Earnings(loss) before depreciation, amortisation, tax and interest (EBITDA)	up	78%	to	(2,275)
Earnings/(loss) before depreciation, amortisation, tax interest and write-off investment and loans to Chinese subsidiary				(1,341)
Loss from ordinary activities after tax attributable to members (NPAT)	up	89%	to	(2,983)
Net Loss for the period attributable to members	up	80%	to	(2,817)

**Brief explanation of any figures reported above necessary to enable the figures to be understood.**

The Company relocated its manufacturing to a new facility in Sichuan, China during the year which significantly reduces production and distribution costs. As a result of this, the Group de-consolidated its Chinese subsidiary, IETC, resulting in \$1.07 million of write-offs and one-off costs. The cash effect of the IETC write-offs and one-off costs to the Company was \$41,399. Excluding the IETC write-offs, 2015 EBITDA was 7% higher (\$1.341 million) versus 2014 (\$1.248 million).

The company does not propose to pay any dividends for the year ended 30 June 2015

**Annual Meeting**

The annual meeting will be held as follows:

**Place:** Sheraton on the Park, Sydney  
**Date:** Tuesday 10th November, 2015  
**Time:** 10.00am

**Approximate date the annual report will be available:** 8th October, 2015

<b>NTA Backing</b>	<b>Current Period</b>	<b>Previous Period</b>
Net tangible asset backing per ordinary share (cents per share)	0.04	0.06



Mr Robert Schuitema  
Company Secretary  
Dated this 28th day of August 2015



# **Phoslock Water Solutions Limited and Controlled Entities**

A.B.N. 88 099 555 290

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015**

**Phoslock Water Solutions Limited and Controlled Entities**  
**A.B.N. 88 099 555 290**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**I N D E X**

	<b>PAGE</b>
Director's Report	4
Auditors' Independence Declaration	9
Consolidated Statement of Profit or Loss And Other Comprehensive Income	10
Consolidated Statement of Financial Position	11
Consolidated Statement of Changes in Equity	12
Consolidated Statement of Cash Flows	13
Notes to the Consolidated Financial Statements	14
Director's Declaration	37
Independent Auditors Report	38

## **Phoslock Water Solutions Limited and Controlled Entities**

**A.B.N. 88 099 555 290**

### **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, 2015.

#### **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 sale and marketing of patented product "Phoslock" to a range of existing and new customers in over 20 countries.

#### **Operating and Financial Review**

##### **Operating Results**

The consolidated loss of the consolidated entity after providing for income tax and non-controlling interests amounted to (\$2,982,981) (2014:(\$1,575,045)). This includes cost of \$1,076,242 relating to the de-consolidation and closure of Chinese subsidiary, IETC. During the year the Company relocated its manufacturing to a new facility in Sichuan, China which has significantly reduced production and distribution costs. The cash effect of the IETC write-offs and one-off closing costs was \$41,399. Revenue decreased by 17% to \$1,185,384 (2014: \$1,414,491). Earnings before Interest, Tax & Depreciation after IETC windup cost for 2015 was (\$1,340,822) versus (\$1,248,362) for 2014.

The financial performance of the company for 2015 was slightly below 2014 after taking IETC windup cost into account. EBITDA after Chinese subsidiary windup cost was 7% lower than 2014. The Company expended significant resources on a number of large long term projects, the benefits of which have not been fully realised to date, but the company is hopeful that this will occur.

##### **Dividends Paid or Recommended**

No dividends have been paid or declared for payment in relation to the financial year ended 30 June 2015 (2014:\$Nil).

##### **Review of Operations**

Revenues recorded for the year of \$1,185,384 represented a 17% 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, windup of Chinese subsidiary, IETC) for the year decreased to \$1,846,462 (2014:\$2,173,496), which is a 17% decrease year on year. The major expense savings were employee expenses, occupancy and marketing expenses.

The loss for the year of the consolidated entity after providing for non-controlling interests and including windup cost for the Chinese subsidiary amounted to \$2,982,981 (2014 (\$1,575,045)). This included one off winding up costs for the Chinese subsidiary of \$1,076,242. The Company will benefit having its manufacturing undertaken at a new facility in Sichuan, which has reduced manufacturing and distribution costs.

Although the Company recorded a loss for the latest financial year the company believes that the outlook for the business remains positive. Revenue for FY2015 were \$1,185,384. During FY2015 the Company focused on its key markets of Australia, Europe and United Kingdom, North America. Significant marketing efforts were made for large one off projects in South America, Asia & Canada.

The level of business activity was higher than previous years with 27 commercial applications completed (2014: 22). The applications completed during the year included a number in Canada and the United States and first application in Brazil. Approximately 40% of the projects completed in 2015 were for repeat customers.

22% of sales came from the European region, where 53 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 both Canada and the United States. Approx 54% of group sales were in this region. Our US licensee, SePRO Corporation, has dedicated significant resources to establish Phoslock in this market since taking over the license in 2011.

The company, and its licensees, are currently working on 39 separate projects (each greater than \$50,000) in our key markets (4 in Australia, 17 in Europe/UK, 3 in Asia, 13 in North America and 2 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 8 large projects with application sizes in 1,000-20,000 plus ton range (2014: 9 projects).

The company has expended significant resources, both time and cost, working on a number of large projects, which are both material in size and value. The company has made significant progress on a number of these projects. Because many of these projects are for government authorities, the timing of approvals is beyond the control of the company.

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 \$3,622,135 as of 30 June 2015 from a net liability of \$2,221,358 as of 30 June 2015. The net increase in net liability is mainly as a result of the operating loss and wind-up of the Chinese subsidiary, IETC.

##### **Capital Management**

The Company received shareholder approval on 27 November, 2014 to convert debt facilities totalling \$660,000 with an original scheduled maturity of 30 November, 2014 into Convertible Notes with a face value of \$1,000 each. A further 90 Convertible Notes with a face value of \$1,000 each were issued to Sail Ahead Pty Ltd, a related party of Robert Schuitema. The Notes are convertible into PWS shares at 4 cents per share on or before 30 June, 2016 at the holders option. Interest is payable on the notes at 15% pa.

On 20 March, 2015 the Company issued \$1,150,000 of Converting Securities to a third party which are repayable through 15 monthly payments of \$76,666 in either cash or the issuance of fully paid shares, determined by a VWAP (volume weighted average price) formula. As at 30 June 2015, 3 repayments had been made. The final monthly repayment is scheduled to be made in June 2016.

## Phoslock Water Solutions Limited and Controlled Entities

A.B.N. 88 099 555 290

### DIRECTOR'S REPORT

#### Future Developments, Prospects and Business Strategies

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

- (i) Conversion of the current sales pipeline, particularly in South America, Asia, Europe and the UK, United States and Canada, and Australia into near terms sales. Phoslock continues to gain industry acceptance in these markets with post application results to date confirming the efficacy of the technology.
- (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.

#### 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 completed the winding-up of its Chinese subsidiary in Kunming, who previously undertook in-house manufacturing activities. Manufacturing is now being undertaken at the premises of a key raw material supplier. The Group provided approx \$100,000 for plant additions and modifications. Phoslock produced from this plant meets all quality assurance and quality control standards.

#### Events after the Reporting Period

There are no events subsequent to balance date.

#### Environmental Issues

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

#### Information on Directors

##### Mr Laurence Freedman AM

Qualifications

Experience

Chairman (Non- executive)

CPA, MAusIMM

Board member since 20 October 2010.

Mr Freedman has a long history and involvement with listed and private companies as both a major shareholder and also as non-executive director. He founded the EquiLink Group, building it into a global investment management corporation, which he sold with his partner in 2000. He has held Chairman and Director roles in many international companies. He currently manages private investments in shares, property and fixed interest investments.

Mr Freedman is Chairman of the Freedman Foundation, a philanthropic enterprise, in Australia.

Mr Freedman was previously Chairman of ASX listed companies KalNorth Gold Mines Ltd and Inca Copper & Gold Ltd.

Interest in Shares & Options

41,310,226 Ordinary Shares in Phoslock Water Solutions Ltd via his related company, Link Traders (Aust) Pty Ltd  
1,800 \$1,000 Convertible Notes due 30 June 2016 via his related company, Link Traders (Aust) Pty Ltd  
5,000,000 Options over Phoslock Water Solutions Ltd shares via his related company, Link Traders (Aust) Pty Ltd

Special Responsibilities

Mr Freedman is Chairman of the Remuneration Committee and a Member of the Audit and Compliance Committee.

##### Mr Robert Schuitema

Qualifications

Experience

Managing Director (Executive)

Chartered Accountant (NZ), BCA, INFINTZ

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

7,931,662 Ordinary Shares in Phoslock Water Solutions Ltd.  
250 \$1,000 Convertible Notes due 30 June 2016

5,000,000 Options over Phoslock Water Solutions Ltd shares.

The vesting of Options is subject to meeting minimum sales target.

Special Responsibilities

Mr Schuitema is a Member of the Audit and Compliance Committee.

##### The Hon. Pam Allan

Qualifications

Experience

Director (Non- executive)

B Arts (Hons) Dip.Ed. University of Sydney, Fellow at the Graduate School of Environment, Macquarie University.

Board member since 2007.

18 years membership of the NSW parliament including 5 years as Minister for the Environment.

Interest in Shares & Options

485,000 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

# Phoslock Water Solutions Limited and Controlled Entities

A.B.N. 88 099 555 290

## DIRECTOR'S REPORT

This report details the nature and amount of remuneration for each director and key management personnel 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 of only non-executive directors. The Company has 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 bonuses were paid to any PWS executive during FY2014/15. No new performance options (subject to performance criteria) were issued to the PWS executives during 2015 (2014: nil).

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 share holders 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 2015 was \$110,008 (2014: \$110,008). As at 30 June 2015, the board comprised two non-executive directors and one executive director. The three directors held 49,726,888 (2014: 49,441,888) ordinary fully paid shares in the company as at 30 June, 2015 which comprised 19.8% (2014: 20.6%) 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	Accrued Long Service Leave	Shares & Options		
30 June 2015	\$	\$	\$	\$	\$	\$	\$	\$	%
Mr Robert Schuitema	87,625	105,875	7,057		32,546	1,626	-	234,729	0.0%
The Hon. Pam Allan	50,004				5,002		-	55,006	
Mr Laurence Freedman	50,004				5,002		-	55,006	
	187,633	105,875	7,057	-	42,550	1,626	-	344,741	0.0%

#### Specified executives

Mr Nigel Traill	110,665	42,998	-		16,000	708	-	170,371	0.0%
Mr Andrew Winks	98,750	-	-		10,500	4,332	-	113,582	0.0%
Dr Sarah Groves	71,250	-	-		7,500	958	-	79,708	0.0%
	280,665	42,998	-	-	34,000	5,998	-	363,661	0.0%
<b>Total</b>	<b>468,298</b>	<b>148,873</b>	<b>7,057</b>	<b>-</b>	<b>76,550</b>	<b>7,624</b>	<b>-</b>	<b>708,402</b>	<b>0.0%</b>

	Short-Term Employment Benefits				Post Employment Benefits	Long Term Benefits	Share Based Payments	Total	Performance Related
	Salary, Fees & Commissions	Non-Monetary	Other		Superannuation	Accrued Long Service Leave	Shares & Options		
30 June 2014	\$	\$	\$	\$	\$	\$	\$	\$	%
Mr Robert Schuitema	157,375	48,125	5,590		20,546	(7,626)	-	224,010	0.0%
The Hon. Pam Allan	50,003	-	-		5,001	-	-	55,004	0.0%
Mr Laurence Freedman	50,003	-	-		5,001	-	-	55,004	0.0%
	257,381	48,125	5,590	-	30,548	(7,626)	-	334,018	0.0%

#### Specified executives

Mr Nigel Traill	155,396	4,600	-		15,996	2,834	-	178,826	0.0%
Mr Andrew Winks	105,000	7,500	-		10,500	(1,500)	-	121,500	0.0%
Dr Sarah Groves	77,185	7,500	-		8,470	(521)	-	92,634	0.0%
	337,581	19,600	-	-	34,966	813	-	392,960	0.0%
<b>Total</b>	<b>594,962</b>	<b>67,725</b>	<b>5,590</b>	<b>-</b>	<b>65,514</b>	<b>(6,813)</b>	<b>-</b>	<b>726,978</b>	<b>0.0%</b>

### Remuneration

Executive directors and executives were not paid 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 Issued as Part of Remuneration for the Year Ended 30 June 2015

No new shares or options were issued to directors during the year. Two directors purchased shares in on market transactions.

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 personnel, including their related parties is as follows:

**Phoslock Water Solutions Limited and Controlled Entities**

**A.B.N. 88 099 555 290**

**DIRECTOR'S REPORT**

**Key Management Personnel**

**30 June 2015**

	Balance 1.07.2014	Received as Compensation	Options Exercised	On Market Purchases	Balance 30.06.2015
Mr Laurence Freedman	41,310,226	-	-	-	41,310,226
Mr Robert Schuitema	7,831,662	-	-	100,000	7,931,662
The Hon. Pam Allan	300,000	-	-	185,000	485,000
Mr Nigel Traill	3,555,074	-	-	-	3,555,074
Dr Sarah Groves	516,996	-	-	-	516,996
Mr Andrew Winks	426,087	-	-	-	426,087
	<b>53,940,045</b>	<b>-</b>	<b>-</b>	<b>285,000</b>	<b>54,225,045</b>

**Options Issued as Part of Remuneration for the Year Ended 30 June 2015**

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 personnel, including their related parties is as follows:

	Balance 1.07.2014	Issue Date	Options Acquired	Options Lapsed	Balance 30.06.2015	Total Vested 30.06.2015	Total Exercisable 30.06.2015	Total Unexercisable 30.06.2015
	No.		No.	No.	No.	No.	No.	No.
Mr Laurence Freedman	-	-	-	-	-	-	-	-
Mr Robert Schuitema	10,000,000	18 Feb 13	-	(5,000,000)	5,000,000	-	-	5,000,000
The Hon. Pam Allan	-	-	-	-	-	-	-	-
Mr Nigel Traill	2,500,000	22 Feb 13	-	(2,500,000)	-	-	-	-
Dr Sarah Groves	500,000	22 Feb 13	-	(500,000)	-	-	-	-
Mr Andrew Winks	2,500,000	22 Feb 13	-	(2,500,000)	-	-	-	-
	<b>15,500,000</b>		<b>-</b>	<b>(10,500,000)</b>	<b>5,000,000</b>	<b>-</b>	<b>-</b>	<b>5,000,000</b>

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

	2015		2014	
	Number of options	Weighted Average Exercise price	Number of options	Weighted Average Exercise price
Outstanding at the beginning of the year *	16,100,000	\$0.104	21,100,000	\$0.104
Vesting conditions not met	(8,050,000)	\$0.100	(5,000,000)	\$0.100
Vested options not exercised	(3,050,000)	\$0.000	-	\$0.000
Outstanding at year end	<b>5,000,000</b>	<b>\$0.100</b>	<b>16,100,000</b>	<b>\$0.104</b>
Exercisable at year end	<b>-</b>	<b>\$0.000</b>	<b>3,050,000</b>	<b>\$0.100</b>

\* Includes options issued to consultants

The 5,000,000 performance based options outstanding at 30 June 2015 had a weighted average exercise price of \$0.10 and a weighted average expected life of 0.5 years. The average exercise price for the options outstanding at 30 June 2015 is \$0.10.

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 24.

For options to convert into ordinary shares, the vesting terms of the option must be met, then the option holder must pay the option price to the Company. Once this has been done, one option will convert into one fully paid ordinary share.

**Other Equity related Key Management Personnel transactions**

On 18 February, 2013 shareholders approved the issue of 1,300 \$1,000 15%pa Convertible Notes to Link Traders (Aust) Pty Ltd, a related party of Laurence Freedman. The Convertible Notes had a maturity of 30 June, 2014 and exercisable into PWS shares at 4.6 cents. On 18 July, 2014, shareholders approved the extension of the Convertible Notes to 30 June, 2016.

On 27 November, 2014 shareholders approved the issue of 500 \$1,000 15%pa Convertible Notes to Link Traders (Aust) Pty Ltd, a related party of Laurence Freedman. The Convertible Notes have a maturity of 30 June, 2016 and exercisable into PWS shares at 4.0 cents.

On 27 November, 2014 shareholders approved the issue of 250 \$1,000 15%pa Convertible Notes to Sail Ahead Pty Ltd, a related party of Robert Schuitema. The Convertible Notes have a maturity of 30 June, 2016 and exercisable into PWS shares at 4.0 cents.

**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 related entities are as follows:

Aggregates for Key Management Personnel

	2015	2014
	\$	\$
Balance at the beginning of the year	34,375	102,100
Loans advanced	90,000 *	-
Loans repayments received	(95,875)	(67,725)
Provision for impairment	-	-
Balance at the end of the year	<b>28,500</b>	<b>34,375</b>

**Phoslock Water Solutions Limited and Controlled Entities**

**A.B.N. 88 099 555 290**

**DIRECTOR'S REPORT**

\* Loan to Robert Schuitema approved by shareholders on 27 November, 2014. Loan is to be repaid in 12 months payments of \$7,500 each.

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 up to 12 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 and Convertible Notes in the parent entity.

No loan to any key management personnel exceeded \$100,000 during the year.

**Other Transactions with Key Management Personnel and/or their Related Parties**

Transactions with Key Management Personnel and/or Related Parties are detailed in Note 25. These transactions were conducted on terms no more favourable than those reasonably expected under arm's length dealings with unrelated parties.

**Employment Contracts of Directors and 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 5,000,000 options outstanding as at 30 June 2015 (2014: 15,500,000).

There were no termination payments during the year (2014: nil).

**Meetings of Directors**

During the financial year, 10 meetings of directors (including committees of directors) were held. Attendances by each director during the year were:

	Directors' Meetings		Committee Meetings		Remuneration	
	Number Eligible to attend	Number attended	Audit & Compliance Number Eligible to attend	Number attended	Number Eligible to attend	Number attended
Mr Laurence Freedman	7	7	2	2	1	1
Mr Robert Schuitema	7	7	2	2	-	-
The Hon. Pam Allan	7	7	2	2	1	1

**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 \$28,437 (2014: \$24,322) 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, other than conduct involving a wilful breach of duty in relation to 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 2015 has been received and can be found on page 9 of the Financial Report.

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



Mr Robert Schuitema  
Managing Director



Hon Pam Allan  
Non-Executive Director - Chairman of Audit Committee

Dated at Sydney, 28th August 2015

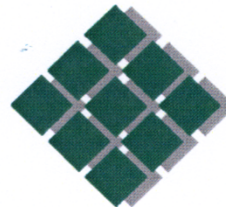
Dated at Sydney, 28th August 2015



# W. W. Vick & Co.

Chartered Accountants

ABN 14 568 923 714



## Auditor's Independence Declaration

under Section 307C of the Corporations Act 2001

### To the directors of Phoslock Water Solutions Limited and Controlled Entities

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2015, 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

**W W Vick & Co**  
Chartered Accountants

Dated: 28 August 2015

Phillip Jones - Partner

Fayworth House, Suite 503, 5<sup>th</sup> Floor, 379-383 Pitt Street, Sydney, NSW 2000  
PO Box 20037, World Square, NSW 2002  
Phone : 02 9266 0881 Fax : 02 9266 0886



Liability limited by  
scheme approved  
under Professional  
Standards Legislation

Phoslock Water Solutions Limited and Controlled Entities

A.B.N. 88 099 555 290

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2015**

	NOTE	2015 \$	2014 \$
Sales revenue	2	838,632	1,104,161
Cost of sales		(643,385)	(506,699)
Gross profit		195,247	597,462
Other revenue	2	346,752	310,331
Distribution expenses		(29,443)	(74,639)
Marketing expenses		(124,407)	(293,080)
Occupancy expenses		(99,106)	(129,546)
Administrative expenses		(560,105)	(524,222)
Employee benefit expenses	3	(979,471)	(1,152,010)
Depreciation and amortisation	13	(46,467)	(34,472)
Finance costs	3	(664,259)	(292,211)
Options expenses		(74,408)	-
Gain/(Loss) on asset sales	3	(13,563)	18,495
Impairment of fixed assets	13	-	(1,153)
Wind up of Chinese Subsidiary IETC	5	(933,751)	-
<b>LOSS BEFORE INCOME TAX</b>		(2,982,981)	(1,575,045)
Income tax expense/ (revenue)	4	-	-
<b>LOSS FOR THE YEAR</b>	3	(2,982,981)	(1,575,045)
<b>OTHER COMPREHENSIVE INCOME</b>			
Exchange differences arising on translation of foreign controlled entities		165,352	6,997
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		(2,817,629)	(1,568,048)
<b>Profit (Loss) for the year attributable to:</b>			
- Owners of parent entity		(2,931,102)	(1,567,412)
- non-controlling interest		(51,879)	(7,633)
Total loss for the year		(2,982,981)	(1,575,045)
<b>Total comprehensive loss for the year attributable to:</b>			
- Owners of parent entity		(2,817,629)	(1,567,521)
- non-controlling interest		-	(527)
Total comprehensive loss for the year		(2,817,629)	(1,568,048)
<b>Earnings per share</b>			
Basic earnings per share (cents per share)	8	(1.22)	(0.65)
Diluted earnings per share (cents per share)	8	(0.94)	(0.59)

*The accompanying notes form part of these consolidated financial statements*

**Phoslock Water Solutions Limited and Controlled Entities**  
**A.B.N. 88 099 555 290**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2015**

	NOTE	2015 \$	2014 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	9	132,367	273,490
Trade and other receivables	10	622,559	402,245
Inventories	11	140,538	132,971
Other assets	15	63,150	62,709
<b>TOTAL CURRENT ASSETS</b>		<b>958,614</b>	<b>871,415</b>
<b>NON-CURRENT ASSETS</b>			
Plant and equipment	13	106,635	150,065
Intangible assets	14	-	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>106,635</b>	<b>150,065</b>
<b>TOTAL ASSETS</b>		<b>1,065,249</b>	<b>1,021,480</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	16	507,540	322,585
Financial liabilities	17 (a)	3,595,811	2,568,135
Derivative liabilities	17 (b)	227,897	-
Short term provisions	18	323,182	316,993
<b>TOTAL CURRENT LIABILITIES</b>		<b>4,654,430</b>	<b>3,207,713</b>
<b>NON-CURRENT LIABILITIES</b>			
Long term provisions	18	32,954	35,125
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>32,954</b>	<b>35,125</b>
<b>TOTAL LIABILITIES</b>		<b>4,687,384</b>	<b>3,242,838</b>
<b>NET ASSETS/(LIABILITIES)</b>		<b>(3,622,135)</b>	<b>(2,221,358)</b>
<b>EQUITY</b>			
Issued capital	19	32,112,271	31,731,715
Reserves	20	164,378	605,919
Accumulated loss		(35,660,184)	(34,253,628)
Owners interest		(3,383,535)	(1,915,994)
Non-controlling interest		(238,600)	(305,364)
<b>TOTAL EQUITY</b>		<b>(3,622,135)</b>	<b>(2,221,358)</b>

*The accompanying notes form part of these consolidated financial statements*

Phoslock Water Solutions Limited and Controlled Entities  
A.B.N. 88 099 555 290  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2015**

	Issued capital \$	Option reserves	Foreign currency translation reserves \$	Non- controlling interest \$	Accumulated losses \$	Total \$
<b>30 June 2014</b>						
<b>Balance at 1 July 2013</b>	31,731,715	31,745	483,070	(297,204)	(32,686,216)	(736,890)
<b>Total comprehensive income</b>						
Loss for the year	-	-	-	(7,633)	(1,567,412)	(1,575,045)
Other comprehensive income/ (loss)	-	-	7,524	(527)	-	6,997
<b>Total comprehensive income/(loss) for the year</b>	-	-	7,524	(8,160)	(1,567,412)	(1,568,048)
<b>Transactions with owners in their capacity as owners</b>						
Shares issued during the year		83,580	-	-	-	83,580
Total transactions with owners in their capacity as owners	-	83,580	-	-	-	83,580
<b>Balance at 30 June 2014</b>	31,731,715	115,325	490,594	(305,364)	(34,253,628)	(2,221,358)
<b>30 June 2015</b>						
<b>Balance at 1 July 2014</b>	31,731,715	115,325	490,594	(305,364)	(34,253,628)	(2,221,358)
<b>Total comprehensive income</b>						
Loss for the year	-	-	-	(51,879)	(2,931,102)	(2,982,981)
Other comprehensive income	-	-	165,352	-	-	165,352
<b>Total comprehensive income/(loss) for the year</b>	-	-	165,352	(51,879)	(2,931,102)	(2,817,629)
<b>Transactions with owners in their capacity as owners</b>						
Wind-up of IETC			(565,976)	118,643	1,409,221	961,888
Writeback of Phoslock Pty Ltd reserves		(115,325)			115,325	-
Shares issued during the year	380,556	-	-	-	-	380,556
Options issued during the year	-	74,408	-	-	-	74,408
Total transactions with owners in their capacity as owners	380,556	(40,917)	(565,976)	118,643	1,524,546	1,416,852
<b>Balance at 30 June 2015</b>	32,112,271	74,408	89,970	(238,600)	(35,660,184)	(3,622,135)

The accompanying notes form part of these consolidated financial statements

**Phoslock Water Solutions Limited and Controlled Entities**

**A.B.N. 88 099 555 290**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED 30 JUNE 2015**

	<b>NOTE</b>	<b>2015</b>	<b>2014</b>
		<b>\$</b>	<b>\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers and government grant		954,321	1,490,757
Payments to suppliers and employees		(2,278,761)	(2,285,548)
Interest received		1,585	1,867
Finance costs		<u>(429,015)</u>	<u>(259,351)</u>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>23</b>	<u>(1,751,870)</u>	<u>(1,052,275)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from disposal of treasury shares		79,560	-
Proceeds from disposal of plant & equipment		775	82,668
Purchase of property, plant and equipment		<u>(2,543)</u>	<u>(104,918)</u>
<b>NET CASH FROM/( USED) IN INVESTING ACTIVITIES</b>		<u>77,792</u>	<u>(22,250)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from convertible security issue		950,000	-
Proceeds from borrowings		597,155	983,507
Repayment of borrowings		<u>(40,000)</u>	<u>(67,725)</u>
<b>NET CASH FROM FINANCING ACTIVITIES</b>		<u>1,507,155</u>	<u>915,782</u>
Net increase/(decrease) in cash and cash equivalents held		(166,923)	(158,743)
Cash and cash equivalents at the beginning of the period		273,490	409,760
Effect of exchange rates on cash holdings in foreign currencies		<u>25,800</u>	<u>22,473</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>9</b>	<u><u>132,367</u></u>	<u><u>273,490</u></u>

*The accompanying notes form part of these consolidated financial statements*

**Phoslock Water Solutions Limited and Controlled Entities**  
**A.B.N. 88 099 555 290**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**Corporate Information**

Phoslock Water Solutions Limited (the "Company") is a public company listed on the Australian Stock Exchange (trading under the code "PHK"), and is incorporated and domiciled in Australia. The address of the Group's registered office and principal place of business is Suite 403, 25 Lime Street, Sydney, New South Wales 2000, Australia

This financial report covers the consolidated financial statements and notes of Phoslock Water Solutions Limited and Controlled Entities (the 'Group').

Separate financial statements for Phoslock Water Solutions Limited as an individual entity are no longer presented as the consequence of a change to the Corporations Act 2001, however, limited financial information for the Company as an individual entity is included in Note 12.

**NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Preparation**

**Statement of Compliance**

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 were authorised for issue by the Board of Directors on 28 August 2015.

**Basis of Measurement**

The financial statements are based on historical costs, except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

**Functional and Presentation Currency**

The Group financial statements are presented in Australian dollars, which is the company's functional currency and the functional currency of the Group.

**Significant Accounting Policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group entities.

**(a) Material Uncertainty Regarding Going Concern**

The financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business.

The consolidated entity incurred a significant loss after income tax of \$2,982,981 (2014: \$1,575,045), for the year ended 30 June 2015 in respect of the principal activities relating to the commercialisation of Phoslock. This included \$1,076,242 of winding up costs relating to the closing down of the Chinese subsidiary. Nearly 90% of these costs were non-cash adjustments to the value of PWS's equity in IETC and inter-company loans made in 2006-7. The consolidated entity has accumulated losses of \$35,660,184 (2014: \$34,253,628) as at 30 June 2015. The company has net liabilities of \$3,622,135 (2014: \$2,221,358) largely made up of \$2.9 million of Convertible Notes maturing in June 2016 and short-term secured related party loans totalling \$0.7 million.

Revenue for 2015 amounted to \$1,185,384 (2014: \$1,414,492), which was significantly less than management's forecast of between \$3 -5 million. This was largely attributable to delays in several large projects (>\$1 million) being delayed into FY2015-16. 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 2015 totalled \$4,687,384 is made up of trade creditors \$452,925 (2014: 294,984) employee entitlements accrued \$356,136 (2014: \$352,118), subordinated loan from Bentophos GmbH to Phoslock Europe of \$286,285 (2014: \$284,628), Convertible Notes of \$2,863,866 (2014: \$1,300,000) and short-term loans of \$673,556 (2014: \$983,507). At balance date, the company has cash reserves of \$132,367 (2014: \$273,490)

**Phoslock Water Solutions Limited and Controlled Entities**  
**A.B.N. 88 099 555 290**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

The key underlying assumptions 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 \$1.7 million from the issuing of the financial report. This includes additional equity of up to A\$0.75 million to fund the inventory build-up for larger contracts, which are forecast to occur in FY2015-16.
- the budget for the period August 2015 to September 2016 approved by the directors, which underpins the abovementioned cash flow forecasts, is dependent on sales revenue of \$8.7 million, product purchases of \$5.3 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 1,400 tonnes for which cash flows forecasted from September 2015 to September 2016.
- 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 approx \$0.8 million.
- the consolidated entity's \$2.05 million Convertible Notes mature on 30 June, 2016. At this stage the holders have made no decision to convert the Notes into PHK Shares or request repayment. The maturity date of \$2.05 million of Convertible Notes is 10 months from the date of this report. The other series of Convertible Notes are repayable in either shares or cash on a monthly basis, the final repayment to be made in June 2016.

Achieving the forecast budget, including the collection of trade receivables at 30 June 2015, 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 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 Directors will continue to monitor the Group's progress against the cash flow forecasts on a regular basis.

The forecast budget includes cash receipts of \$1.8m from debtors, projects recently completed, orders received but not completed and orders from annual repeat customers totalling 20 projects/customers. The forecast budget also includes 2 Large Projects being undertaken during FY2015/16.

The Company may need to undertake an equity raising in FY 2015-16 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 FY2015-16. 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.

In the event that adequate funds cannot be raised as required and anticipated forecast is not achieved, there exists a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore whether it will be able to realise its assets or extinguish its liabilities in the ordinary course of business.

The Directors believe that they will continue to be successful in securing additional funds through the issue of securities as and when required. Accordingly, the financial statements do not include any adjustment relating to the recoverability and classification of recorded assets amounts, nor to the amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern.

**(b) Principles of Consolidation**

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent (Phoslock Water Solution Ltd) and all of the subsidiaries. Subsidiaries are entities the parent controls. The parent controls an entity when it 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 over the entity.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as "non-controlling interests". The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary's net assets on liquidation at either fair value or at the non-controlling interests' proportionate share of the subsidiary's net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of comprehensive income.

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.

**Phoslock Water Solutions Limited and Controlled Entities**  
**A.B.N. 88 099 555 290**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

A list of controlled entities is contained in Note 12(b) of the financial statements.

*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.

**(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 items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income; otherwise the exchange difference is recognised in profit or loss.

*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 with functional currencies other than Australian dollars are recognised in other comprehensive income and included in the foreign currency translation reserve in the statement of financial position. The cumulative amount of these differences is reclassified into profit or loss in the period in which the operation is disposed of.

**(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 delivery (delivery location as specified in the contract) as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those 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**

The income tax expense/(income) for the year comprises current income tax expense/(income) and deferred tax expense/(income).

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. 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.



**Phoslock Water Solutions Limited and Controlled Entities**  
**A.B.N. 88 099 555 290**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

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 realisation 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.

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**

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of 3 months or less.

**(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.

**Phoslock Water Solutions Limited and Controlled Entities**  
**A.B.N. 88 099 555 290**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**(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) 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 and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present

*Depreciation*

The depreciable amount of all fixed assets is depreciated on a straight line 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:

<b>Class of Fixed Asset</b>	<b>Depreciation Rate</b>
Plant and Equipment	10-33%

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.

**(l) 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.

**(m) Financial instruments**

*Initial recognition and measurement*

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

*Classification and subsequent measurement*

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method, or cost.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the *effective interest method*.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

**Phoslock Water Solutions Limited and Controlled Entities**  
**A.B.N. 88 099 555 290**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

The Group does not designate any interests in subsidiaries, associates or joint ventures as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

**(i) Financial assets at fair value through profit or loss**

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying amount being included in profit or loss.

**(ii) 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. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

**(iii) Financial liabilities**

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

**Derivative financial instruments**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

**Fair value measurement**

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

**Impairment**

A financial asset (or a group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Group recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

**Phoslock Water Solutions Limited and Controlled Entities**  
**A.B.N. 88 099 555 290**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**Financial guarantees**

Where material, financial guarantees issued that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due are recognised as a financial liability at fair value on initial recognition.

The fair value of financial guarantee contracts has been assessed using a probability-weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting during the next reporting period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposure if the guaranteed party were to default.

Financial guarantees are subsequently measured at the higher of the best estimate of the obligation in accordance with AASB 137: *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: *Revenue*. Where the entity gives guarantees in exchange for a fee, revenue is recognised in accordance with AASB 118.

**Derecognition**

Financial assets are derecognised when the contractual rights to receipt of cash flows expire 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 when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount 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.

**(n) 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.

**(o) Provisions**

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

**(p) 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.

**(q) 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.

**(r) Employee benefits**

*Short-term obligations*

Provision is made for the Group's obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages and salaries. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Group's obligations for short-term employee benefits such as wages and salaries are recognised as a part of current trade and other payables in the statement of financial position. The Group's obligations for employees' annual leave and long service leave entitlements are recognised as provisions in the statement of financial position.

**Phoslock Water Solutions Limited and Controlled Entities**  
**A.B.N. 88 099 555 290**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

*Other long-term obligations*

Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on corporate bonds that have maturity dates that approximate the terms of the obligations. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

The Group's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

*Equity-settled compensation*

The Group operates an employee share and option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortised over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using the Black-Scholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

**(s) 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.

**(t) 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 share-based 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.

**(u) 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.

**(v) Parent entity financial information**

The financial information for the parent entity, Phoslock Water Solutions Limited, disclosed in Note 12 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.

**Phoslock Water Solutions Limited and Controlled Entities**  
**A.B.N. 88 099 555 290**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

*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 wholly-owned 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 2005.

*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.

**(w) 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.

**(x) Comparative figures**

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

**(y) 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.

**Phoslock Water Solutions Limited and Controlled Entities**  
**A.B.N. 88 099 555 290**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**(z) New Accounting Standards for Application in Future Periods**

Accounting Standards and Interpretations issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

AASB 9: Financial Instruments and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 January 2018).

The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The key changes that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of the Standard, the application of such accounting would be largely prospective.

Although the directors anticipate that the adoption of AASB 9 may have an impact on the Group's financial instruments, including hedging activity, it is impracticable at this stage to provide a reasonable estimate of such impact.

AASB 15: Revenue from Contracts with Customers (applicable to annual reporting periods commencing on or after 1 January 2017).

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

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.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the performance obligations in the contract(s);
- determine the transaction price;*
- allocate the transaction price to the performance obligations in the contract(s); and
- recognise revenue when (or as) the performance obligations are satisfied.

This Standard will require retrospective restatement, as well as enhanced disclosures regarding revenue.

Although the directors anticipate that the adoption of AASB 15 may have an impact on the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

**Phoslock Water Solutions Limited and Controlled Entities**  
**A.B.N. 88 099 555 290**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

	2015 \$	2014 \$
<b>NOTE 2 REVENUE</b>		
<b>Sales Revenue</b>		
Sale of goods	838,632	1,104,161
Sale Revenue	<u>838,632</u>	<u>1,104,161</u>
<b>Other Revenue</b>		
- interest received	2,318	1,867
- export development/R&D grants	335,903	308,350
- other revenue	8,531	114
	<u>346,752</u>	<u>310,331</u>
Total Sales and other revenue	<u>1,185,384</u>	<u>1,414,492</u>
 (a) Interest revenue from		
- other persons	2,318	1,867
- related parties	-	-
	<u>2,318</u>	<u>1,867</u>
<b>NOTE 3 LOSS FOR THE YEAR</b>		
Loss for the year includes the following specific expense items:		
<b>Expenses</b>		
Finance costs:		
- Convertible Notes issued to third party - amortised interest expense	172,667	-
- Convertible Notes issued to related parties	258,801	195,000
- loans provided by related parties	202,043	97,211
- other interest	659	-
- Convertible Notes issued to third party - upfront finance fee expense	30,089	-
Total finance costs	<u>664,259</u>	<u>292,211</u>
Fair Value movement on Derivative Liability	7,551	-
Rental expense on leased premise		
- minimum lease payments	87,894	60,750
(Gain)/Loss on disposal of plant and equipment	13,563	(18,495)
Superannuation contributions	90,075	68,733
Depreciation and amortisation	46,467	34,472
Write-off investments in IETC	568,744	-
Write-off of loan to IETC	365,006	-
Loss on IETC prior to de-consolidation	142,491	-
<b>NOTE 4 INCOME TAX EXPENSE</b>		
<b>(a) Income tax expense</b>		
- Current tax	-	-
- Deferred tax	-	-
	<u>-</u>	<u>-</u>
<b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>		
Operating profit/ (loss) before tax	(2,982,981)	(1,575,045)
Tax at the Australian tax rate of 30% (2014 - 30%)	(894,894)	(472,514)
Tax effect of:		
- prepayment movements	312	31,706
- deferred tax assets not bought to account, the benefits of which will only be realised if the conditions for deductible set out in Note 1(e) occur	894,582	440,808
<b>Income tax expense/ (revenue)</b>	<u>-</u>	<u>-</u>
Weighted average effective tax rate	30%	30%
<b>(c) Unrecognised deferred tax assets</b>		
Accumulated losses	28,023,701	25,594,952
Potential tax losses	8,407,110	7,678,486
Temporary differences - accruals and provisions	410,753	379,719
Potential tax benefit	123,226	113,916
Total deferred tax assets not bought to account	<u>8,530,336</u>	<u>7,792,402</u>



**Phoslock Water Solutions Limited and Controlled Entities**  
**A.B.N. 88 099 555 290**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**NOTE 5 Wind-Up of Chinese Subsidiary IETC**

On 12 December, 2012 a decision was made by the shareholders of IETC Environmental Protection Technology (Kunming) Ltd ("IETC"), 71% owned by the Group, to not renew the 10 year business license granted by the Yunnan Government, which expired on 31 December, 2013. Production of Phoslock ceased at the IETC manufacturing facility in late 2013 and all plant and equipment was dismantled and sold prior to 31 December, 2013.

A liquidation committee was formed to oversee the wind-up of IETC after production ceased in late 2013. IETC's auditors were engaged to complete the Liquidation Report which was filed with relevant Chinese government and Yunnan provincial agencies.

The liquidation of IETC was deemed to have been completed on 31 March, 2015. The Group de-consolidated IETC effective of that date, as a consequence of loss of control of IETC.

The Group's financial statement are impacted two ways through the wind-up of IETC. Firstly, the Consolidated Income statement includes a loss for IETC of \$142,491. This includes one off employee costs of \$59,713, most of which relate to termination costs. In addition, one off administration costs of \$78,972 (legal, accounting, audit, government fees) were paid to wind-up IETC. Secondly, the group recognised write-off costs of \$933,751 comprising \$568,744 being the book value of the Group's investment in IETC paid in 2003 and \$365,006 being a loan made to IETC in 2007. The total of the one off liquidation costs for IETC are \$1,076,242. The cash cost of the IETC wind-up to the Company in FY2014-15 was \$41,399.

**NOTE 6 KEY MANAGEMENT PERSONNEL COMPENSATION**

Refer to the remuneration report in the directors report for details of the remuneration paid or payable to each member of the Groups Key Management Personnel for the year ended 30 June 2015

The totals of remuneration paid to key management personnel of the Company and the Group during the financial year are as follows:

	<b>Consolidated Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Short term employee benefits	624,228	668,277
Post employment benefits	76,550	65,614
Long term benefits	7,624	(6,813)
Equity compensation benefits	-	82,255
Total compensation	<u>708,402</u>	<u>809,333</u>

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Remuneration of the auditor for:		
- auditing of the financial report	40,000	37,000
- reviewing of the financial report	5,000	5,000

**NOTE 7 AUDITORS REMUNERATION**

There are no other services provided by W W Vick & Co.

**NOTE 8 EARNINGS PER SHARE**

**(a) Reconciliation of earnings to profit and loss**

Loss	(2,982,981)	(1,575,045)
Loss attributable to non controlling equity interest	51,879	7,633
Earnings used to calculate basic EPS	<u>(2,931,102)</u>	<u>(1,567,412)</u>
Earnings used in the calculation of dilutive EPS	<u>(2,931,102)</u>	<u>(1,567,412)</u>

**(b) Reconciliation of earnings to profit and loss from continuing operations**

Loss from continuing operations	(2,982,981)	(1,575,045)
Loss attributable to non-controlling interest in respect of continuing operations	51,879	7,633
Earnings used to calculate basic EPS from continuing operations	<u>(2,931,102)</u>	<u>(1,567,412)</u>
Earnings used in the calculation of dilutive EPS from continuing operations	<u>(2,931,102)</u>	<u>(1,567,412)</u>

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

	<b>No.</b>	<b>No.</b>
Weighted average number of shares	241,241,426	239,566,732
Weighted average number of options outstanding & shares issued by convertible notes	<u>70,760,870</u>	<u>28,260,870</u>
Weighted average number of ordinary shares outstanding during the year used in the calculation of EPS	<u>312,002,296</u>	<u>267,827,602</u>

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 9. CASH AND CASH EQUIVALENTS**Reconciliation of cash

Cash and cash equivalents

Westpac Banking Corporation holds security over a cash deposit account (rental guarantee) of \$25,000 (2014:\$25,000) with effective interest rate of 3.3% (2014: 2.5%).

		2015	2014
		\$	\$
<b>Current</b>			
Trade receivables		274,059	92,870
Less provision for impairment	10(a)	-	-
		<u>274,059</u>	<u>92,870</u>
Loans to related parties	(i) and 25(e)	28,500	34,375
Grant income receivables		<u>320,000</u>	<u>275,000</u>
		<u>348,500</u>	<u>309,375</u>
		622,559	402,245

(i) the loans to related parties were provided in relation to the purchase of shares in the parent entity. Refer details provided in Note 25.

### 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 (2014: \$ 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.

	Gross Amount	Past Due and Impaired	Past Due but Not Impaired				Within Initial Trade Terms
	\$0	\$0		(Days Overdue)			\$0
			< 30	31-60	61-90	> 90	
			\$0	\$0	\$0	\$0	
<b>2015</b>							
Trade and other receivables	274,059	-	-	-	-	-	274,059
Other receivables	348,500	-	-	-	-	-	348,500
Total	622,559	-	-	-	-	-	622,559
<b>2014</b>							
Trade and term receivables	92,870	-	-	-	-	-	92,870
Other receivables	309,375	-	-	-	-	-	309,375
Total	402,245	-	-	-	-	-	402,245

## NOTE 11 INVENTORIES

NOTE 11 INVENTORIES	2015	2014
	\$	\$
<b>CURRENT</b>		
<b>At lower of cost and net realisable value</b>		
Finished goods	140,538	132,971
	<u>140,538</u>	<u>132,971</u>

**Phoslock Water Solutions Limited and Controlled Entities**  
**A.B.N. 88 099 555 290**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**NOTE 12 PARENT ENTITY INFORMATION**

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

Current assets	80	226
Non-current assets	4,915,028	3,963,013
Total assets	4,915,108	3,963,239
Term Liabilities	(2,863,867)	(1,300,000)
Total Liabilities	(2,863,867)	(1,300,000)
Net assets	2,051,241	2,663,239
Issued Capital	32,112,271	31,823,715
Treasury Stock	-	(92,000)
Share based payment and options reserve	74,408	115,325
Accumulated losses	(30,135,438)	(29,183,801)
Total Equity	2,051,241	2,663,239
Profit/(Loss) after income tax	(1,117,296)	(278,749)
Other comprehensive income	-	-
Total comprehensive income/ (loss)	(1,117,296)	(278,749)

Phoslock Water Solutions Ltd received shareholder approval on 27 November, 2014 to issue 750 15% Convertible Notes for \$0.75 million to Link Traders (Aust) Pty Ltd (a party related to Laurence Freedman) and Sail Ahead Pty Ltd ( a related party of Robert Schuitema) on normal commercial terms. The Convertible Notes are convertible into PHK shares at \$0.04 per share or repayable on 30 June 2016, at the option of the holder. On 20 March, 2015 Phoslock Water Solutions Ltd issued \$1.15 million Convertible Notes to a third party. The Convertible Notes are repayable over 15 monthly payments of \$76,666 in either cash or shares.

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 arrangement was commenced on 9 February 2015 and ended on 28 May 2015. This was converted into a loan.

There are no contingent liabilities and contractual commitments at balance date.

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

	Country of Incorporation	Percentage Owned (%)*	
		2015	2014
<b>Subsidiaries of Phoslock Water Solutions Limited:</b>			
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	0	71
Phoslock Water Solutions UK Co Ltd	United Kingdom	100	100
Phoslock Europe GmbH	Switzerland	60	60

\* IETC Environmental Protection Technology (Kunming) Ltd ("IETC") liquidation in China was completed and was deconsolidated effective 31 March, 2015

	2015 \$	2014 \$
<b>NOTE 13 PLANT AND EQUIPMENT</b>		
Plant and equipment, at cost	289,510	304,445
Less accumulated depreciation	(182,875)	(154,380)
	106,635	150,065

**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 2014</b>	150,065	150,065
Additions	3,287	3,287
Disposals	(250)	(250)
Depreciation Expense	(46,467)	(46,467)
<b>Balance at 30 June 2015</b>	106,635	106,635
<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>	150,065	150,065

**Phoslock Water Solutions Limited and Controlled Entities**  
**A.B.N. 88 099 555 290**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**NOTE 14 INTANGIBLE ASSETS**

**Trademarks and licences**

Cost	4,159,660	4,159,660
impairment	(4,159,660)	(4,159,660)
Net carrying value	-	-

**Development costs**

Cost	323,740	323,740
impairment	(323,740)	(323,740)
Net carrying value	-	-

There has been no movement in the intangible assets for both 2015 and 2014 as such no movement schedule has been presented.

There is no amortisation on intangible assets for both 2015 and 2014 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 2015**

In 2011, the directors resolved to impair the carrying value of company's Intellectual Property (\$2,092,554) based on value in use calculation. 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.

	2015 \$	2014 \$
<b>NOTE 15 OTHER ASSETS</b>		
CURRENT		
Prepayments	33,601	32,560
VAT deposit guarantee	29,549	30,149
	<u>63,150</u>	<u>62,709</u>

**NOTE 16 TRADE AND OTHER PAYABLES**

CURRENT		
Trade payables	452,925	294,984
Sundry payables and accrued expenses	54,617	27,601
	<u>507,542</u>	<u>322,585</u>

All trade and other payables are unsecured and are non-interest bearing. The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 27 Financial Risk Management.

**NOTE 17 (a) FINANCIAL LIABILITIES**

CURRENT			
Convertible Notes (secured) with third party	A	585,969	-
Convertible Notes (secured) with related parties		2,050,000	1,300,000
Related party borrowings (secured)		673,556	983,507
Related party subordinated loan (unsecured)		286,285	284,628
		<u>3,595,811</u>	<u>2,568,135</u>

The Convertible Notes (secured/unsecured), borrowings and sub-ordinated loan relating to related parties as disclosed in Note 25.

**NOTE 17 (b) DERIVATIVE LIABILITIES**

Derivative liability	A	227,897	-
----------------------	---	---------	---

**A**

A Convertible Note was issued to a third party on 20 March, 2015. The Convertible Notes are repayable through 15 monthly repayments of \$76,667. The Company has the option to make the monthly repayments in either cash or shares. If the repayments are in shares, the pricing formula is based on 90% of the five lowest VWAP's (volume weighted average price) for the month. As at 30 June, 2015, the Company had made 3 repayments totalling \$230,001 with 12 repayments totalling \$920,004 outstanding. 4 million collateral shares are issued as security. The financial liability is carried at amortised cost and the embedded derivatives liabilities are carried at fair value. The effective interest rate is used to calculate the interest expense of \$172k (note 3). The sum of the financial liability and the derivative liability equate to the value of the financing value at 31 March 2015 less the 3 repayment prior to balance date.

**NOTE 18 PROVISIONS**

CURRENT		
<b>Employee entitlements</b>		
Opening balance at 1 July	316,993	280,878
Additional provisions	53,889	56,268
Amounts used	(47,700)	(20,153)
Balance at 30 June	<u>323,182</u>	<u>316,993</u>

**Phoslock Water Solutions Limited and Controlled Entities**  
**A.B.N. 88 099 555 290**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**NON-CURRENT**

**Employee entitlements**

Opening balance at 1 July	35,125	27,646
Additional provisions	(2,171)	7,479
Amounts used	-	-
Balance at 30 June	<u>32,954</u>	<u>35,125</u>

**Analysis of total provisions**

Current	323,182	316,993
Non-current	<u>32,954</u>	<u>35,125</u>
	<u>356,136</u>	<u>352,118</u>

**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 to this report.

**NOTE 19 ISSUED CAPITAL**

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
250,851,616 fully paid ordinary shares (2014: 237,566,732)	<u>32,112,271</u>	<u>31,731,715</u>
	<u>32,112,271</u>	<u>31,731,715</u>

**(a) Ordinary Shares**

	<b>2015</b>	<b>2015</b>	<b>2014</b>	<b>2014</b>
	<b>No.</b>	<b>\$</b>	<b>No.</b>	<b>\$</b>
At the beginning of the year	237,566,732	31,731,715	237,566,732	31,731,715
Shares issued during the year				
- 20 March 2015 - collateral shares issued under Convertible Note	4,000,000	58,555		
- 30 April 2015	2,254,902	76,667		
- 31 May 2015	2,190,476	76,667		
- 30 June 2015	2,839,506	76,667		
Treasury stock issued for sale	2,000,000	92,000		
Balance at the end of the year	<u>250,851,616</u>	<u>32,112,271</u>	<u>237,566,732</u>	<u>31,731,715</u>

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.

During the financial year, 2 million Ordinary Shares held as Treasury Stock were sold.

**(b) Options**

- (i) For information relating to Phoslock Water Solutions Limited employee options, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end, refer to Note 24 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 24 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 27 November 2014 to convert the debt facilities of \$660,000 with an original scheduled maturity of 30 November 2014 into Convertible Notes through the issue of 660 Convertible Notes with a face value of \$1,000 each. A further 90 Convertible Notes with a face value of \$1,000 each were issued to Sail Ahead Pty Ltd, a related party of Robert Schuitema. Interest is payable monthly at a rate of 15% pa. The holder of the Notes has the option to convert each Note into fully paid Ordinary Shares or be repaid in full on the maturity date. On 20 March, 2015 the Company issued \$1,150,000 of Converting Securities to a third party which are repayable over 15 monthly payments of \$76,666 in either cash or the issuance of fully paid Ordinary Shares. The gearing ratio's for the year ended 30 June 2015 and 30 June 2014 are as follows:

	<b>Note</b>	<b>2015</b>	<b>2014</b>
		<b>\$</b>	<b>\$</b>
Total borrowings	16,17	4,331,248	2,890,720
Less cash and cash equivalents	9	<u>(132,367)</u>	<u>(248,490)</u>
Net debt		4,198,881	2,642,230
Total equity		(3,622,135)	(2,221,358)
Total assets		<u>1,065,249</u>	<u>1,021,480</u>
Gearing ratio		-116%	-119%

**NOTE 20 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 and options issued to third parties. 9,500,000 Options were issued during FY2015 to third parties. An option expense of \$16,523 was recorded for FY 2014-15 for share option expenses issued to a related party and an additional \$57,885 for options issued to third parties. This amount of \$74,804 was also credited to the Option Reserve (see Consolidated Statement of Changes in Equity).

**Phoslock Water Solutions Limited and Controlled Entities**  
**A.B.N. 88 099 555 290**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

	2015	2014
	\$	\$
<b>NOTE 21 COMMITMENTS</b>		
<b>(a) Finance Lease Commitments</b>		
The Group does not have any finance lease commitments.		
<b>(b) Operating Lease Commitments</b>		
Non-cancellable operating lease		
Payable - minimum lease payments		
- not later than 12 months	88,239	81,000
- between 12 months and 5 years	22,326	101,250
- greater than 5 years	-	-
	<u>110,565</u>	<u>182,250</u>

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

**NOTE 22 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.

**Phoslock Water Solutions Limited and Controlled Entities**  
**A.B.N. 88 099 555 290**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**NOTE 22 SEGMENT REPORTING (continued)**

**(i) Segment performance**

	Australia/NZ	Europe/UK	North America	Other	Total	Eliminations	Total
<b>Twelve months ended 30 June 2015</b>							
<b>Revenue</b>							-
External sales	182,533	204,099	451,019	981	838,632	-	838,632
Inter-segment sales	-	68,137	-	-	68,137	(68,137)	-
Other revenue	335,903				335,903	-	335,903
<b>Total segment revenue</b>	<b>518,436</b>	<b>272,236</b>	<b>451,019</b>	<b>981</b>	<b>1,242,672</b>	<b>(68,137)</b>	<b>1,174,535</b>
<i>Reconciliation of segment revenue to group revenue</i>							
Unallocated interest and other income							10,849
Total group revenue							<u>1,185,384</u>

<b>Segment (loss)/profit before tax</b>	<b>(694,137)</b>	<b>(40,569)</b>	<b>-</b>	<b>(142,491)</b>	<b>(877,197)</b>	<b>-</b>	<b>(877,197)</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					-	-	(46,467)
---------------------------------	--	--	--	--	---	---	----------

Unallocated items:

- IETC Liquidation charges							(933,751)
- Corporate charges							(461,307)
- Finance costs							(664,259)

Loss before income tax from continuing operations							<u>(2,982,981)</u>
---	--	--	--	--	--	--	--------------------

**Twelve months ended 30 June 2014**

<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>430,260</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*

Unallocated interest and other income							1,981
Total group revenue							<u>1,414,492</u>

<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>
--------------------------------	------------------	---------------	---------------	-----------------	------------------	----------------	------------------

*profit/(loss) before tax*

Amounts not included in segment result but

- Depreciation and amortisation					-	-	(34,472)
---------------------------------	--	--	--	--	---	---	----------

Unallocated items:

- Corporate charges							(519,382)
- Finance costs							(292,211)

Loss before income tax from continuing operations							<u>(1,575,045)</u>
---	--	--	--	--	--	--	--------------------

**(ii) Segment assets**

**30 June 2015**

<b>Segment assets</b>	<b>1,800,947</b>	<b>183,066</b>	<b>-</b>	<b>-</b>	<b>1,984,013</b>	<b>(918,762)</b>	<b>1,065,251</b>
Unallocated assets - intangibles							
<b>Total group assets</b>							<u>1,065,251</u>

**30 June 2014**

<b>Segment assets</b>	<b>2,505,214</b>	<b>85,503</b>	<b>-</b>	<b>103,067</b>	<b>2,693,784</b>	<b>(1,672,304)</b>	<b>1,021,480</b>
Unallocated assets - intangibles							-
<b>Total group assets</b>							<u>1,021,480</u>

**(iii) Segment liabilities**

**30 June 2015**

<b>Segment liabilities</b>	<b>4,407,411</b>	<b>1,185,699</b>	<b>-</b>	<b>-</b>	<b>5,593,110</b>	<b>(905,726)</b>	<b>4,687,384</b>
Unallocated liabilities							-
<b>Total group liabilities</b>							<u>4,687,384</u>

**30 June 2014**

<b>Segment liabilities</b>	<b>2,946,766</b>	<b>993,749</b>	<b>-</b>	<b>277,254</b>	<b>4,217,769</b>	<b>(974,931)</b>	<b>3,242,838</b>
Unallocated liabilities							-
<b>Total group liabilities</b>							<u>3,242,838</u>

**(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 (2014:35%)

**Phoslock Water Solutions Limited and Controlled Entities**  
**A.B.N. 88 099 555 290**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

	2015 \$	2014 \$
<b>NOTE 23 CASH FLOW INFORMATION</b>		
<b>Reconciliation of net cash from operating activities to operating profit after income tax</b>		
Net loss after income tax	(2,982,981)	(1,575,045)
<b>Cash flows excluded from loss attributable to operating activities</b>		
Depreciation expense	46,467	34,472
Shares and Option expense	74,408	82,255
Interest on Convertible Notes- amortised cost	172,667	-
FV movement of derivative liability	7,551	
Finance expense - Convertible notes	30,089	
Impairment of fixed assets	-	1,153
Gain on disposal of fixed assets	13,563	(18,495)
Wind-up off IETC	933,751	-
<b>Change in assets/liabilities</b>		
(Increase)/decrease in trade and term receivables	(220,314)	166,746
(Increase)/decrease in prepayments and other assets	(441)	(23,622)
(Increase)/decrease in inventories	(7,567)	225,486
Increase/(decrease) in trade payables and accruals	184,955	11,181
Increase/(decrease) in provisions	(4,018)	43,594
<b>Cash flow used in operating activities</b>	<u>(1,751,870)</u>	<u>(1,052,275)</u>

**NOTE 24 SHARE-BASED PAYMENTS**

At 30 June 2015 the Group has the following share-based payment scheme:

**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.

Under the 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 (2014: nil 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 2015:

	2015		2014	
	Number of options	Weighted Average Exercise price	Number of options	Weighted Average Exercise price
Outstanding at the beginning of the year	16,100,000	0.10	21,100,000	0.10
Granted	-	0.00	-	0.10
Vesting Conditions not met	(8,050,000)	0.10	(5,000,000)	0.10
Exercised	-	0.00	-	0.00
Vesting options not exercised	(3,050,000)	0.10	-	0.15
Outstanding at year end	<u>5,000,000</u>	<u>0.10</u>	<u>16,100,000</u>	<u>0.10</u>
Exercisable at year end	<u>-</u>	<u>0.00</u>	<u>3,050,000</u>	<u>0.10</u>

The options outstanding at 30 June 2015 had a weighted average exercise price of \$0.10 and a weighted average expected life of 0.5 years.

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.

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 Remuneration Report.

**NOTE 25 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 12.



**Phoslock Water Solutions Limited and Controlled Entities**  
**A.B.N. 88 099 555 290**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

	2015 \$	2014 \$
<b>(a) Key Management Personnel Compensation</b>		
Details of key management personnel compensation are included in Note 6 and the Remuneration Report.		
Transaction with related parties:		
<b>(b) Relatives of Specified Executives</b>		
Services provided on a normal commercial basis by parties related to specified executives		
Margaret Schuitema – part time employment (1))	60,000	60,000
Yolanda Winks – part time employment (2)	36,250	30,000
Ben Schuitema – part time employment (1)	18,000	18,495
Martin Schuitema – part time employment (1)	17,250	23,805
<b>(c) Transactions with related parties</b>		
Link Traders (Aust) Pty Ltd – rental costs for Sydney Office (3)	87,894	60,750
Link Traders (Aust) Pty Ltd – interest on loans (3) (7)	421,199	288,874
Sail Ahead Pty Ltd – interest on loans (4) (8)	39,645	3,296
Radar Group Pty Ltd - investor relations, web design and web services (9)	-	38,850
Contribution to self-managed superannuation funds managed by related parties (1) (3)	47,073	36,047
<b>(d) Transactions with other related parties</b>		
Bentophos GmbH - purchase of goods & services	9,407	71,000
Bentophos GmbH - subordinated loan payments to Phoslock Europe GmbH	-	7,226
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 to purchase Convertible Notes or PHK shares (5)	28,500	34,375
Link Traders (Aust) Pty Ltd – Convertible Notes (3) (6)	1,800,000	1,300,000
Sail Ahead Pty Ltd – Convertible Notes (4) (6)	250,000	-
Link Traders (Aust) Pty Ltd – loan to Phoslock Pty Ltd (3)	673,556	823,507
Sail Ahead Pty Ltd – loan to Phoslock Pty Ltd (4)	-	160,000
Bentophos GmbH - subordinated loan to Phoslock Europe GmbH	(286,285)	284,628
(1) related party of Robert Schuitema		
(2) related party of Andrew Winks		
(3) Laurence Freedman is a director of this company		
(4) Robert Schuitema is a director of this company		
(5) loans granted at 2014 AGM for the acquisition of 90 \$1,000 Phoslock Convertible Notes. Loan to be fully repaid by 30 October 2015 by salary deductions; interest rates - 0%		
(6) Convertible Notes issued by Phoslock Water Solutions Ltd convertible/ repayable by 30 June, 2016; interest rate – 15%		
(7) interest paid on loans, debt factoring to Phoslock Pty Ltd (interest rate 20%) and Convertible Notes to Phoslock Water Solutions Ltd (interest rate 15%)		
(8) interest paid on loans to Phoslock Pty Ltd (interest rate 20%) and Convertible Notes to Phoslock Water Solutions Ltd (interest rate 15%)		
(9) related party by of Laurence Freedman		

**NOTE 26 EVENTS SUBSEQUENT TO BALANCE DATE**

There are no events subsequent to balance date.

**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.

**(i) 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.

**Phoslock Water Solutions Limited and Controlled Entities**  
**A.B.N. 88 099 555 290**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**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 arrangements with a related party for the accounts receivable of a major customer.

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**

(ii)

**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.

**2015**

		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
<b>Financial Assets</b>							
Cash and cash equivalents	2.5%	132,367	-	-	-	-	132,367
Trade and other receivables	0%	-	-	-	-	622,559	622,559
<b>Total Financial Assets</b>		132,367	-	-	-	622,559	754,926

**2014**

		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
<b>Financial Assets</b>							
Cash and cash equivalents	2.5%	273,490	-	-	-	-	273,490
Trade and other receivables	0%	-	-	-	-	402,245	402,245
<b>Total Financial Assets</b>		273,490	-	-	-	402,245	675,735

**2015**

		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
<b>Financial Liabilities</b>							
Trade and sundry payables	0%	-	-	-	-	507,540	507,540
Convertible Notes	15%	-	2,863,866	-	-	-	2,863,866
Borrowings	20%	-	673,556	-	-	-	673,556
Subordinated Loan	0%	-	-	-	-	286,285	286,285
<b>Total Financial Liabilities</b>		-	3,537,422	-	-	793,825	4,331,248

**2014**

		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
<b>Financial Liabilities</b>							
Trade and sundry payables	0%	-	-	-	-	322,585	322,585
Convertible Notes	15%	-	1,300,000	-	-	-	1,300,000
Borrowings	20%	-	983,507	-	-	-	983,507
Subordinated Loan	0%	-	-	-	-	284,628	284,628
<b>Total Financial Liabilities</b>		-	2,283,507	-	-	607,213	2,890,720

**Phoslock Water Solutions Limited and Controlled Entities**  
**A.B.N. 88 099 555 290**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

	2015	2014
	\$	\$
<b>(b) Financial Instruments (continued)</b>		
<b>Financial liabilities are expected to be paid as follows:</b>		
Less than 6 months	507,540	322,585
6 months to 1 year	3,537,422	2,283,507
1-5 years	286,285	284,628
Over 5 years	-	-
	4,331,248	2,890,720

(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 2015, 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:

<b>Change in profit</b>		
- Increase in interest rate by 1%	1,324	2,735
- Decrease in interest rate by 1%	(1,324)	(4,975)
<b>Change in equity</b>		
- Increase in interest rate by 1%	1,324	2,735
- Decrease in interest rate by 1%	(1,324)	(4,975)

**Foreign Currency Risk and Sensitivity Analysis**

As at 30 June 2015, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the US Dollar on US\$ sales (assumed to be 50% of total sales) with all other variables remaining constant is as follows:

<b>Change in profit</b>		
- Improvement in AUD to USD by 10%	29,771	39,198
- Decline in AUD to USD by 10%	(29,771)	(39,198)
<b>Change in equity</b>		
- Improvement in AUD to USD by 10%	29,771	39,198
- Decline in AUD to USD by 10%	(29,771)	(39,198)

As at 30 June 2015, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the Euro on Euro sales (assumed to be 30% of total sales) with all other variables remaining constant is as follows:

<b>Change in profit</b>		
- Improvement in AUD to Euro by 10%	15,599	20,537
- Decline in AUD to Euro by 10%	(15,599)	(20,537)
<b>Change in equity</b>		
- Improvement in AUD to Euro by 10%	15,599	20,537
- Decline in AUD to Euro by 10%	(15,599)	(20,537)

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**

The Group measures and recognises derivative financial instruments at fair value on a recurring basis after the initial recognition.

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	Measurements based on unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
Level 2	Measurements based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3	Measurements based on unobservable inputs for the asset or liability.

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2

If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3

**Phoslock Water Solutions Limited and Controlled Entities**  
**A.B.N. 88 099 555 290**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**Valuation Techniques**

The Group selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value.

The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured.

The valuation techniques selected by the Group are consistent with one or more of the following valuation approaches:

- Market approach: valuation technique that use prices and other relevant information generated by market transactions for identical or similar assets or liabilities.
- Income approach: valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.
- Cost approach: valuation technique that reflect the current replacement cost of an asset and its current service capacity.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks.

When selecting a valuation technique, the Group gives priority to those techniques that maximise the use of observable inputs and minimises the use of unobservable inputs.

Inputs that are developed using market data and reflect the assumptions that buyers and sellers would generally use when pricing the assets or liability are considered observable.

Whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

The following tables provide the fair values of the Group's assets and liabilities measured and recognised on a recurring basis and initial recognition and the categorisation within the fair value hierarchy.

		30 June 2015				30 June 2014
		Level 1	Level 2	Level 3	Total	Total
Note		\$	\$	\$	\$	\$

**Recurring Fair Value Measurements**

Derivative liability	17 (b)		227,897		227,897	-
----------------------	--------	--	---------	--	---------	---

**Valuation Techniques and Inputs used to Measure Level 2 Fair Values**

	Fair Value		Inputs Used
	30 June 2015	Valuation Techniques	
	\$		
<b>Description</b>			
Derivative liability	227,897	The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.	Derivative financial instruments have been valued using quoted market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

There were no transfers between levels during the financial year.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to the short-term nature.

The Group has no assets that are measured at fair value (2014: Nil).

**NOTE 29 CONTINGENT LIABILITIES**

The group has no contingent liabilities. (2014- NIL)

In the Directors' opinion:

- 1 the consolidated financial statements and notes, as set out on pages 10 to 36, and the remuneration report on pages 6 to 8 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 2015 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(b) confirms that the consolidated financial statements is in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Chief Executive and Chief Financial Officer have given the declarations required by section 295A of the Corporations Act 2001 to the Directors.

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



Mr Robert Schuitema  
Managing Director

Dated this 28th day of August 2015  
Sydney



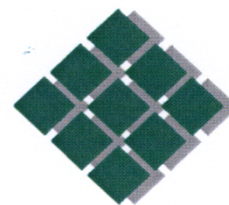
Hon Pam Allan  
Non-Executive Director - Chairman of Audit Committee

Dated this 28th day of August 2015  
Sydney

Sydney-HeadOffice

■  
Suite 403,Level4,25LimeStreet,Sydney,NSW2000,Australia

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



## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE MEMBERS OF PHOSLOCK WATER SOLUTIONS LIMITED AND CONTROLLED ENTITIES**

#### **Report on the Financial Report**

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 2015, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 29 comprising a summary of significant accounting policies and other explanatory notes and the directors' declaration for Phoslock Water Solutions Limited, 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**

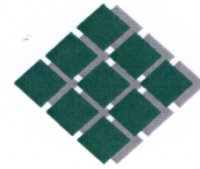
Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain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



## AUDIT OPINION

In our opinion the financial report of Phoslock Water Solutions Limited and Controlled Entities 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 2015 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

Without modifying our opinion, we draw attention to Note 1(a) in the financial report which indicates that the consolidated entity incurred a net loss of \$2,982,981 during the year ended 30 June 2015, has accumulated losses totalling \$35,660,184, a net current liability position of \$3,695,816 and net cash used in operating activities of \$1,751,870 as at 30 June 2015. These conditions, along with other matters disclosed in Note 1(a), 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 6 to 8 of the directors' report for the year ended 30 Jun 2015. 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 and Controlled Entities for the year ended 30 June 2015 complies with section 300A of the *Corporations Act 2001* .

5th Floor  
379-383 Pitt Street  
Sydney NSW 2000

**W W Vick & Co**  
Chartered Accountants

Dated: 28 August 2015

Phillip Jones - Partner

Fayworth House, Suite 503, 5<sup>th</sup> Floor, 379-383 Pitt Street, Sydney, NSW 2000  
PO Box 20037, World Square, NSW 2002  
Phone : 02 9266 0881 Fax : 02 9266 0886



Liability limited by  
scheme approved  
under Professional  
Standards Legislation