PHOSLOCK WATER SOLUTIONS LTD
(ABN 88 099 555 290)
APPENDIX 4E
PRELIMINARY FINAL REPORT
YEAR ENDED 30 JUNE 2010

Previous Corresponding Reporting Period: 30 June 2009

Results for announcement to the market:

				$A'000
Revenues from ordinary activities	up	79%	to	1,943
Earnings before depreciation, amortisation, tax and interest (EBITDA)	improved	40%	to	(1,194)
Profit (loss) from ordinary activities after tax attributable to members (NPAT)	improved	32%	to	(1,777)
Net profit (loss) for the period attributable to members	improved	32%	to	(1,777)

The company does not propose to pay any dividends for the year ended 30 June 2010.

Annual Meeting

The annual meeting will be held as follows:

Place: Sheraton on the Park Hotel, Sydney
Date: 25th November 2010
Time: 10 am

Approximate date the annual report will be available: 22nd October 2010

NTA BACKING	Current period	Previous corresponding period
Net tangible asset backing per ordinary security (cents per share)	1.22	1.02

Commentary on results:

Insert commentary here

(Company Secretary) Date: 31 / 08 / 2010

Robert Schuitema

PHOSLOCK WATER SOLUTIONS LIMITED AND CONTROLLED ENTITES

ABN: 88 099 555 290

Annual Financial Report For The Year Ended 30 June 2010

PHOSLOCK WATER SOLUTIONS LIMITED AND CONTROLLED ENTITES

30 June 2010
ABN: 88 099 555 290

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Your directors present their report on the Company and its controlled entities for the financial year ended 30th June, 2010.

Directors
The names of directors in office at any time during the year or since the end of the year are:

Dr David Garman
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 - BCA, INFINZ, CA.

Principal Activities
The principal activities of the consolidated entity during the financial year were the commercialisation of Phoslock.

There were no significant changes in the nature of the consolidated entity's principal activities during the financial year.

Operating Results
The consolidated loss of the consolidated entity after providing for income tax and non-controlling interests amounted to $1,777,485 (2009: ($2,616,305)).

Dividends Paid or Recommended
No dividends have been paid or declared for payment in relation to the financial year ended 30th June 2010 (2009: $Nil).

Review of Operations
Revenues recorded for the year of $1,942,826 represent a 79% increase over the prior year. The major increases were sales in Europe, North America and Australia along with access to Australian Government Grants for both export development and ongoing research and development.

Operating expenses (including depreciation and amortization) for the year decreased by approx $460,000. This was mainly attributable to lower employee, occupancy and administration costs. This resulted in a full year operating loss after providing for income tax and eliminating non-controlling interests of $1,777,485 a 32% improvement over the previous year's loss of $2,616,305.

Earnings before depreciation and amortisation, tax and interest (EBITDA) for the year was ($1,292,228) a 38% improvement over the previous year.

Although the Company recorded a loss for the latest financial year the company believes that the outlook for the business remains very positive. During FY2009-10 the Company focused on its key markets of Australia, Europe and UK, North America, China and other parts of Asia. The level of business activity was significant higher than previous years with 25 commercial applications (including paid trails) completed (2009;15). The number of applications completed during the year was 60% higher than the previous year and the average value of the projects was also significantly higher. Approx 1/3rd of the projects completed in 2009/10 were for repeat customers. In addition, a number of sales were made to aquaculture farmers in Australia, South East Asia and South & Central America. The company is working with experienced aquaculture industry personnel to promote Phoslock to major aquaculture farmers as a tool to help control phosphorus in their growing ponds.

Trials remain an important part of our business. The company is still a stage of development where customers with large water bodies still want to see Phoslock applied and monitored to smaller water bodies before committing to a large application. The trails are resource and time consuming however success of these are vitally important to securing larger projects. The noticeable exception is in Europe where our team, along with our joint venture partner, Bentophos, have completed 25 lake projects since early 2007 and have 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 see on 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 all markets in the coming years.

The Company is currently working on 17 separate projects (each greater than $100,000) with a total sales value in excess of $7,000,000 in our key markets (2 in Australia, 7 in Europe/UK, 4 in Asia, 4 in North America) with sales decisions due over the next 12 months.

The Company is also undertaking trial applications in certain key markets where a positive outcome of these trials will lead to a project of significant status getting approval to go ahead. Several of these projects are in the range of $5 -$10 million sales value. Decisions on some of these projects are expected over the next 6-24 months.

The key to PWS's growth and development is increasing sales by converting its extensive pipeline into sales. PWS is building a business in which it expects to increase sales from the current level of approx 700 tons in FY2009/10 to 1,500 - 2,000 tons for FY 2010/11. Over the longer term annual sales are expected to reach 10,000 tons. PWS has invested heavily in the commercialisation of Phoslock and expects to recoup this investment as the Phoslock business grows in the core target markets.

The company has recently increased its coverage in Europe/UK with the additional of two executives – one based in the Uk and the other in northern Italy. The company is also increasing its coverage of China with arrangements with several Chinese/English multi-lingual executives to assist with communication and development of the Phoslock business in China.

Financial Position

The net assets of the consolidated entity increased by $534,682 from 30 June 2009 to $4,703,508 on 30 June 2010. The net increase is mainly as a result of the conversion of A$1,000,000 of converting notes into shares when they matured in August 2009. The carrying value of Plant and Equipment and Intellectual Property has been reduced through the annual significant depreciation and amortisation charges.

During the past six financial years the group has invested in the Phoslock technology with the objective of securing its long term success. Strategic investments have been made in associated companies and licensee operations to provide the company with the necessary management influence and control to ensure business goals and objectives are met.

Future Developments, Prospects and Business Strategies

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

(i) Conversion of the current sales pipeline, particularly in Europe and the UK, North America, China and parts of South East Asia and Australia into near term 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 the potentially large North American market in both lake management and storm water catchment sectors. Work in Ontario, Canada to date has confirmed the significant potential for the Phoslock technology in these business sectors.

(iii) Completion of a major Australian drinking water project. Success in this treatment is anticipated to be the catalyst for establishing Phoslock as the preferred nutrient management tool for major Australian water authorities and other countries. A critical milestone will be use by a major urban water manager on a large reservoir.
(iv) Development of our Asia business particularly in China and Singapore. Trials in both countries during the year were successful and have led to large projects earmarked for the coming year.
(v) When demand justifies additional production capacity, PWS proposes to construct a second Phoslock production facility, most likely in China. A second plant, in addition to providing the capacity to meet the expected demand growth, will mitigate the risks associated with a single production source.
(vi) Evaluation and development of other water treatment products and cleantech technologies via licensing arrangements or acquisition to add to PWS's existing product range. PWS is in the second year of developing a second water treatment product in conjunction with a major Australian university.

Going Concern

The consolidated entity recorded an operating loss of $1,777,485 for the year ended 30 June 2010 (2009: loss of $2,616,305) and has accumulated losses prior to elimination of non-controlling interests of $25,712,862 (2009: $23,935,377) as at 30 June 2010.

The directors are satisfied that it is appropriate to report that the company as a going concern based on the following reasons:

(i) the company's ability to increase sales from current levels in key markets (Australia, Europe and UK, North America, China and other parts of Asia);
(ii) the company's ability of management to control costs;
(iii) the company's ability to raise additional funds from the issue of new shares if required.

The company is currently working on 17 separate projects (each greater than $100,000) with a total sales value in excess of $7,000,000 in our key markets (2 in Australia, 7 in Europe/UK, 4 in Asia, 4 in North America) with sales decisions due over the next 12 months.

The company is also undertaking trial applications in certain key markets where a positive outcome of these trials will lead to a project of significant status getting approval to go ahead. Several of these projects are in the range of $5-$10 million sales value. Decisions on some of these projects are expected over the next 6-24 months.

In support of ongoing liquidity of the group, management has prepared forecasts for the 12 month period ended 31 August 2011. These forecasts assume that the company will be successful in the following during this period:

- Sales of a minimum of $2.6 million (management are forecasting a low of $3 million and high of $5 million);
- Purchase approx $0.5 million of new inventory from Chinese Joint Venture;
- Operating costs being maintained at a consistent level of $200,000 per month;
- Approval and receipt of approx $0.45m of Export Development and Research & Development Grants relating to FY2008/09 and FY2009/10. Three of the four grant applications have been lodged and are currently being processed;
- Settlement of the balance of the Volclay receivable in relation to the sale of the Miles bentonite mine of $335,000
- The Company undertaking an equity raising during the financial year of a minimum of $1.0 million.

If the above is achieved the Company will have a consolidated cash balance of approx $1.4 million as at 31 August 2011.

The ongoing financial viability of the company and its ability to continue as a going concern is heavily dependent on the ability to convert projects in the current pipeline into sales as detailed above, and its ability to achieve the underlying assumptions in the forecasts as outlined above.

Significant Changes in State of Affairs
No significant changes in the state of affairs of the parent entity occurred during the financial year.

Environmental Issues
The consilidated 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 are as 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, PWS imports Phoslock from its joint venture in China. Phoslock was originally certified by NICNAS in June 2001. Under its registration PWS has an obligation to advise NICNAS of any material changes to the product, research or technical papers covering the product and material results for applications.

Internationally, the Company commits to comply with all local regulatory authority requirements.

Information on Directors

Dr David Garman	-	Chairman (Non- executive)
Qualifications	-	Ph D (Syd), M. Sc (Syd),B.Sc (Sp Hons) London, MAICD
Experience	-	Board member since 2001, Executive Director CRC for Waste Management Ltd and the Environmental Biotechnology CRC, President and Director International Water Association.
Interest in Shares & Options	-	1,027,273 Ordinary Shares in Phoslock Water Solutions Limited to acquire a further 227,272 ordinary shares.
Special Responsibilities	-	Dr Garman is a Member of the Audit Committee and Remuneration Committee.
Mr Robert Schuitema	-	Managing Director (Executive)
Qualifications	-	BCA, INFINZ, CA
Experience	-	Board member since April 2005, Former Managing Director of investment bank Chase Manhattan and later JP MorganChase responsible for the bank's mining, metals and project finance business in Australia and the Asia Pacific region.
Interest in Shares & Options	-	4,571,787 Ordinary Shares in Phoslock Water Solutions Limited and options to acquire a further 2,454,545 ordinary shares
Special Responsibilities	-	Mr Schuitema is a Member of the Audit Committee.
The Hon. Pam Allan	-	Director (Non- executive)
Qualifications	-	Board member since 2007, B Arts (Hons) Dip.Ed. University of Sydney, Fellow at the Graduate School of Environment, Macquarie University.
Experience	-	18 years membership of the NSW parliament including 5 years as Minister for the Environment.
Interest in Shares & Options	-	150,000 Ordinary Shares in Phoslock Water Solutions Ltd and options to acquire a further 400,000 ordinary shares.
Special Responsibilities	-	Ms Allan is a Member of the Audit Committee and Remuneration Committee.

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

Remuneration Policy
The remuneration policy of Phoslock Water Solutions Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering bonus payments based on the consolidated entity's financial results. The board of Phoslock Water Solutions Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the high quality executives and directors to run and manage the consolidated entity, as well as create goal congruence between directors, executives and shareholders.

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

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the remuneration committee. The remuneration committee currently comprises only non-executive directors. The company recently adopted the ASX recommendation for the remuneration committee to comprise only non-executive directors. All executives receive a base salary (which is based on factors such as length of service and experience), superannuation and share options or a bonus (if certain milestones are met). The remuneration committee reviews executive packages annually by reference to the consolidated entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries. Executives and directors do not receive any other retirement benefits.

All remuneration paid to key management personnel is measured at cost to the company and expensed. Options are valued by reference to the Black Scholes methodology. The board's policy is to remunerate non-executive directors by reference to market rates for comparable companies, time commitment, responsibilities and experience relevant to the industry. The remuneration committee determines payments to non-executive directors and reviews their remuneration annually based on market practice, duties and accountability. The maximum aggregate amount of fees that can be paid to non- executive directors is subject to approval by shareholders at the Annual General Meeting. The current aggregate maximum sum available for remuneration of non-executive directors is set at $200,000 per year (approved at the 2004 Annual General Meeting).Fees for non-executive directors are not linked to the performance of the consolidated entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company and are able to participate in share placements on the same terms as other investors subscribing for shares.

Key Management Personnel Remuneration

	Short-term Employment Benefits		Post Employment	Share Based Payments	Total	Performance Related
	Salary, Fees & Commissions	Other	Superannuation Contribution	Shares & Options		
30 June 2010	$	$	$	$	$	%
Mr Robert Schuitema	220,000	13,484	20,333	-	253,817	-
The Hon. Pam Allan	47,564	-	4,756	-	52,320	-
Dr David Garman	80,000	-	8,000	-	88,000	-
	347,564	13,484	33,089	-	394,137	
Specified Executives						
Mr Nigel Traill	116,667	38,800	10,458	-	165,925	-
Mr Eddie Edmunds	187,000	4,530	24,000	-	215,530	-
Mr Andrew Winks	87,001	13,763	8,128	-	108,892	-
Dr Sarah Groves	117,000	-	11,062	-	128,062	-
	507,668	57,093	53,648	-	618,409	
Total	855,232	70,577	86,737	-	1,012,546	

	Short-term Employment Benefits		Post Employment	Share Based Payments	Total	Performance Related
	Salary, Fees & Commissions	Other	Superannuation Contribution	Shares & Options		
30 June 2009	$	$	$	$	$	%
Mr Robert Schuitema	235,000	39,402	23,500	-	297,902	-
The Hon. Pam Allan	45,000	-	4,050	-	49,050	-
Dr David Garman	75,000	-	7,500	-	82,500	-
Mr Russell Brown (retired)	16,666	-	1,500	-	18,166	-
	371,666	39,402	36,550	-	447,618	
Specified Executives						
Mr Colin Upcoft (resigned)	91,705	6,875	7,093	-	105,673	-
Mr Nigel Traill	100,000	60,000	9,000	20,000	189,000	11
Mr Eddie Edmunds	182,000	20,000	32,000	-	234,000	-
Mr Andrew Winks	91,745	-	8,257	10,000	110,002	9
Dr Sarah Groves	115,000	15,000	9,900	10,000	149,900	7
	580,450	101,875	66,250	40,000	788,575	
Total	952,116	141,277	102,800	40,000	1,236,193	

Remuneration

Executive directors and executives were not paid performance based bonuses during the year. No executive director received any share or option based remuneration 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 and Options Issued as Part of Remuneration for the Year Ended 30 June 2010

No shares or options were issued to directors or executives as remuneration during the year. Directors and executives were invited to participate in the share placement in August 2009 on the same terms as shareholders who participated in the share placement. The allotment of shares to directors was approved at the company's AGM on 26th November, 2009.

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

	Balance 1.07.2009	Received as Compensation	Options Exercised	Net Charge Other*	Balance 30.06.2010
	No.	No.	No.	No.	No.
Key Management Personnel					
Dr David Garman	800,000	-	227,273	-	1,027,273
Mr Robert Schuitema	3,476,888	-	454,545	640,354	4,571,787
The Hon. Pam Allan	-	-	-	150,000	150,000
Mr Eddie Edmunds	-	-	-	90,909	90,909
Mr Nigel Traill	2,864,165	-	-	90,909	2,955,074
Dr Sarah Groves	100,000	-	-	90,909	190,909
Mr Andrew Winks	100,000	-	-	-	100,000
Total	7,341,053	-	681,818	1,063,081	9,085,952

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

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

	Balance 1.07.2009	Options Acquired*	Options Exercised	Net Charge Other*	Balance 30.06.2010	Total Vested 30.06.2010	Total Exercisable 30.06.2010	Total Unexercisable 30.06.2010
	No.	No.	No.	No.	No.	No.	No.	No.
Dr David Garman	500,000	454,545	(227,273)	(500,000)	227,272	227,272	227,272	-
Mr Robert Schuitema	4,227,272	681,817	(454,545)	(2,000,000)	2,454,545	2,454,545	2,454,545	-
The Hon. Pam Allan	500,000	150,000	-	(250,000)	400,000	400,000	400,000	-
Mr Eddie Edmunds	1,000,000	90,909	-	(1,000,000)	90,909	90,909	90,909	-
Mr Nigel Traill	590,909	90,909	-	(590,909)	90,909	90,909	90,909	-
Dr Sarah Groves	250,000	90,909	-	(250,000)	90,909	90,909	90,909	-
Mr Andrew Winks	150,000	-	-	(150,000)	-	-	-	-
Total	7,218,181	1,559,089	(681,818)	(4,740,909)	3,354,544	3,354,544	3,354,544	-

*Options (exercisable at 11cps on or before 10 August, 2010) issued with shares purchased at 11cps

The Net Change Other column above includes those options that have been forfeited by holders.

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

	2010		**2009**	
	Number of Options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
		$		**$**
Outstanding at the beginning of the year	21,290,637	0.32	27,322,913	0.28
Granted	13,032,521	0.11	5,492,724	0.44
Forfeited	(1,350,000)	0.50	(800,000)	0.37
Exercised	(681,818)	0.11	-	0.23
Expired	(11,210,907)	0.25	(10,725,000)	0.20
Outstanding at year-end	21,080,433	0.20	21,290,637	0.32
Exercisable at year-end	21,080,433	0.20	17,775,000	0.29

13,032,521 options were issued during the year ended 30 June 2010. These options had a weighted average share price of $0.11 at exercise date.

The options outstanding at 30 June 2010 had a weighted average exercise price of $0.20 and a weighted average remaining contractual life of 0.2 years. Exercise prices range from $0.11 to $0.50 in respect of options outstanding at 30 June 2010.

The weighted average fair value of the options granted during the year was $0.01
This price was calculated by using a Black Scholes option pricing model applying the following inputs:

Weighted average exercise price	$0.11
Weighted average life of the option	1.0 years
Underlying share price	$0.11
Expected share price volatility	30%
Risk free interest rate	5.6%

Historical volatility has been the basis for determining expected share price volatility as it assumed that this is indicative of future tender, which may not eventuate.

The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

Equity settled share-based payments included under employee benefits expense in the statement of comprehensive income is $ 0 (2000:$72,440).

All options granted are ordinary shares in Phoslock Water Solutions Limited which confer a right of one ordinary share for every option held.

Options exercised or lapsed during the current financial year that were granted as compensation in prior periods:

	Options granted as Remuneration	Total remuneration represented by Options	Options exercised	Options lapsed	Total
	$	%			
Dr David Garman			-	(500,000)	(500,000)
The Hon. Pam Allan	-	-	-	(250,000)	(250,000)
Mr Robert Schuitema	-	-	-	(2,000,000)	(2,000,000)
Mr Nigel Traill	-	-	-	(500,000)	(500,000)
Mr Eddie Edmunds	-	-	-	(1,000,000)	(1,000,000)
Mr Andrew Winks	-	-	-	(150,000)	(150,000)
Dr Sarah Groves	-	-	-	(250,000)	(250,000)

Value of options that lapsed as a result of vesting conditions not being fulfilled was $101,322.

Employment Contracts of Directors and Senior Executives
The employment conditions of the Managing Director and executives are formalised in contracts of employment.

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.

Meetings of Directors
During the financial year, 9 meetings of directors (including committees of directors) were held. Attendances by each director during the year were:

	Directors' Meetings		Committee Meetings			
			Audit		Remuneration	
	Number eligible to attend	Number attended	Number eligible Attend	Number attended	Number eligible to Attend	Number Attended
Dr David Garman	6	6	2	2	1	1
Mr Robert Schuitema*	6	6	2	2	1	1
The Hon Pam Allan	6	6	2	2	1	1

*Mr Schuitema ceased to be a member of the remuneration committee from the board meeting on 18th August, 2010 as the company adopted the ASX recommendations for listed companies that the remuneration committee consist only of non-executive directors.

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 totaling $38,475 to insure all directors and executives against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director or officer of the Company. Neither indemnities nor agreements to indemnify exist in relation to the Company's auditor.

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

Grant Date	Date of expiry	Exercise price	Number under option
24-Nov-05	30-Nov-10	$0.40	4,000,000
15-Dec-05	30-Nov-10	$0.40	800,000
29-Nov-07	1-Dec-10	$0.50	250,000
22-Oct-09	30-Sept-11	$0.15	150,000
22-Oct-09	30-Sept-12	$0.15	150,000
			5,350,000

These options do not entitle the holder to participate in any share issue of the Company, nor do they carry any voting rights or rights to dividends. Further details regarding these options can be found at Note 5.

Details of options outstanding at 30 June 2010 including options issued, exercised and forfeited are detailed at Note 26.

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 2010 has been received and can be found on page 17 of the directors' report.

Signed in accordance with a resolution of the Board of Directors.

Mr Robert Schuitema - Managing Director
Dated this 31st day of August 2010

Dr David Garman - Chairman of Directors
Dated this 31st day of August 2010

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Phoslock Water Solutions Limited

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2010 there have been:

(i) no contraventions of the auditor independence requirements of 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.

Signed at Brisbane 31 August 2010.

WHK Horwath

WHK HORWATH

VDeWaal

VANESSA M DE WAAL
Principal

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PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated Group	
		2010	2009
		$	**$**
Sales Revenue	2	1,586,873	615,438
Cost of Sales		(708,859)	(272,684)
Gross Profit		878,014	342,754
Other income	2	355,953	470,135
Distribution expenses		(99,887)	(102,231)
Marketing expenses		(347,468)	(279,046)
Occupancy expenses		(132,875)	(187,119)
Administrative expenses		(618,058)	(752,766)
Employee benefits expense		(1,327,907)	(1,516,211)
Depreciation and amortisation		(499,743)	(518,637)
Finance costs		(83,598)	(130,924)
Other expenses		-	(75,670)
Share of net loss of associates		-	-
Loss before income tax	3	(1,875,569)	(2,749,715)
Income tax expense	4	-	-
Loss for the year		(1,875,569)	(2,749,715)
Other comprehensive income			
Exchange differences arising on translation of foreign controlled entities		(18,327)	374,050
Total comprehensive income / (loss)		(1,893,896)	(2,375,665)
Loss for the year attributable to:			
- owners of parent entity		(1,777,485)	(2,616,305)
- non-controlling interests		(98,084)	(133,410)
Total loss for the year		(1,875,569)	(2,749,715)
Total comprehensive income /(loss) attributable to:			
- owners of parent entity		(1,794,401)	(2,299,581)
- non-controlling interests		(99,495)	(76,084)
		(1,893,896)	(2,375,665)
Earnings per share			
Basic earnings per share (cents per share)	7	(1.02)	(1.60)
Diluted earnings per share (cents per share)	7	(0.98)	(1.46)

The accompanying notes form part of these financial statements.

PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2010

	Note	Consolidated Group 2010 $	Consolidated Group 2009 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	462,883	527,148
Trade and other receivables	9	972,718	517,038
Inventories	10	1,138,302	1,061,486
Other current assets	17	68,425	61,997
TOTAL CURRENT ASSETS		2,642,328	2,167,669
NON-CURRENT ASSETS			
Trade and other receivables	9	-	361,190
Investments accounted for using the equity method	11	-	-
Property, plant and equipment	14	322,085	485,176
Intangible assets	16	2,443,042	2,778,742
TOTAL NON-CURRENT ASSETS		2,765,127	3,625,108
TOTAL ASSETS		5,407,455	5,792,777
CURRENT LIABILITIES			
Trade and other payables	17	364,664	349,348
Financial liabilities	18	17,593	1,050,609
Short-term provisions	19	118,255	78,723
TOTAL CURRENT LIABILITIES		500,512	1,478,680
NON-CURRENT LIABILITIES			
Financial liabilities	18	130,977	95,271
Other long-term provisions	19	72,458	50,000
TOTAL NON-CURRENT LIABILITIES		203,435	145,271
TOTAL LIABILITIES		703,947	1,623,951
NET ASSETS		4,703,508	4,168,826
EQUITY			
Issued capital	20	29,282,930	26,854,352
Reserves		1,204,023	1,220,939
Accumulated losses		(25,712,862)	(23,935,377)
Owners interest		4,774,091	4,139,914
Non-controlling interest		(70,583)	28,912
TOTAL EQUITY		4,703,508	4,168,826

The accompanying notes form part of these financial statements.

PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2010

	Note	Issued Capital Ordinary	Option reserves	Foreign currency translation reserves	Non controlling Interests	Accumulated losses	Total
		$	$	$	$	$	$
30 June 2009							
Balance at 1 July 2008		24,977,235	978,313	(102,538)	104,996	(21,319,072)	4,638,934
Total comprehensive income							
Net loss for the period		-	-	-	(133,410)	(2,616,305)	(2,749,715)
Exchange differences arising on translation of foreign controlled subsidiaries		-	-	316,724	57,326	-	374,050
Total comprehensive income		-	-	316,724	(76,084)	(2,616,305)	(2,375,665)
Transactions with owners in their capacity as owners							
Shares issued during the period		1,914,915	-	-	-	-	1,914,915
Transaction costs		(37,798)					(37,798)
Options expense		-	28,440	-	-	-	28,440
Total transactions with owners in their capacity as owners		1,877,117	28,440	-	-	-	1,905,557
Balance at 30 June 2009		26,854,352	1,006,753	214,186	28,912	(23,935,377)	4,168,826
30 June 2010							
Balance at 1 July 2010		26,854,352	1,006,753	214,186	28,912	(23,935,377)	4,168,826
Total comprehensive income							
Net loss for the period		-	-	-	(98,084)	(1,777,486)	(1,875,569)
Exchange differences arising on translation of foreign controlled subsidiaries		-	-	(16,916)	(1,411)	-	(18,327)
Total comprehensive income		-	-	(16,916)	(99,495)	(1,777,486)	(1,893,896)
Transactions with owners in their capacity as owners							
Shares issued during the period		2,466,377	-	-	-	-	2,466,377
Transaction costs		(37,799)	-	-	-	-	(37,799)
Total transactions with owners in their capacity as owners		2,428,578	-	-	-	-	2,428,578
Balance at 30 June 2010		29,282,930	1,006,753	197,270	(70,583)	(25,712,862)	4,703,508

The accompanying notes form part of these financial statements.

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PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated Group 2010 $	Consolidated Group 2009 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		1,887,189	1,004,880
Interest received		11,539	31,023
Payments to suppliers and employees		(3,229,895)	(2,747,096)
Finance costs		(61,767)	-
Net cash provided by (used in) operating activities	24a	(1,392,934)	(1,711,193)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		1,565	31,643
Purchase of property, plant and equipment		(15,015)	(3,385)
Purchase of other non-current assets		(14,708)	(39,739)
Net cash used in investing activities		(28,158)	(11,481)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		1,330,577	1,756,800
Proceeds from borrowings		74,398	177,680
Repayment of borrowings		(6,882)	(6,299)
Transaction costs		(37,555)	(37,798)
Net cash provided by (used in) financing activities		1,360,538	1,890,383
Net increase in cash and cash equivalents held		(60,554)	167,709
Cash and cash equivalents at beginning of financial year		527,148	349,610
Effect of exchange rates on cash holdings in foreign currencies		(3,711)	9,829
Cash and cash equivalents at end of financial year	8	462,883	527,148

The accompanying notes form part of these financial statements.

Note 1 Statement of Significant Accounting Policies

These financial statements includes the consolidated financial statements and notes of Phoslock Water Solutions Limited and controlled entities ('Consolidated Group' or 'Group').

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

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below. They have been consistently applied unless otherwise stated.

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

Basis of Reporting
The Corporations Amendment (Corporate Reporting Reform) Bill 2010, which came into effect for the financial year ended 30 June 2010, has abolished the need to include parent entity financial statements within the consolidated financial statements prepared under the *Corporations Act 2001.* The company has therefore not included the parent entity financial statements in these financial statements, which now only represent the consolidated results. The company has included the parent entity disclosures required by the Corporations Amendment (Corporate Reporting Reform) Bill 2000 in Note 13 to the financial statements.

(a) Principles of Consolidation

A controlled entity is any entity over which Phoslock Water Solutions Limited has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

A list of controlled entities is contained in Note 13 to the financial statements.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered (left) the consolidated group during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

All inter-group balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity. Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

(b) Income Tax

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

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognized 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 realized 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.

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

(c) Inventories
Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

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

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

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

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

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

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

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 and 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.

(e) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the consolidated group are classified as finance leases. Finance leases are capitalized by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a diminishing value basis over the shorter of their estimated useful lives or the lease term. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

(f) Financial Instruments

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument.

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

Derecognition

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

Classification and Subsequent Measurement

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

Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

(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 using the effective interest rate method.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the group's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

(v) Financial Liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Fair value

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

Impairment
At each reporting date, the group assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

(g) Impairment of Assets
At each reporting date, the 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 assets carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

(i) Intangibles

Goodwill
Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business combination exceeds the fair value attributed to the interest in the net fair value of identifiable assets, liabilities and contingent liabilities at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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.

(j) 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 transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items 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 items 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 equity to the extent that the gain or loss is directly recognized in equity, otherwise the exchange difference is recognised in the statement of comprehensive income.

Group Companies

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

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

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

(k) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Equity-settled compensation

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

(l) Provisions

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

(m) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities in the statement of financial position.

(n) 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 company, and revenue can be reliably measured.

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

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

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

(o) Borrowing Costs

Borrowing costs are recognised in the statement of comprehensive income in the period in which they are incurred.

(p) 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 cash flows are shown inclusive of GST.

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

(q) Comparative Figures

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

(r) Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Key Estimates — Impairment

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates. No provision for impairment of goodwill or intangibles was recognised during the year.

(s) Changes in Accounting Policies

Accounting Standards not Previously Applied

The Group has adopted the following new and revised Australian Accounting Standards issued by the AASB which have mandatory application to the current year. Disclosures required by these Standards that are deemed material have been included in this financial report on the basis that they represent a significant change in information from that previously made available.

Presentation of Financial Statements

AASB 101 prescribes the contents and structure of the financial statements. Changes reflected in these financial statements include:

- the replacement of Income Statement with Statement of Comprehensive Income. Total comprehensive income includes the changes in equity during the period other than changes resulting from transactions with owners in their capacity as owners. Items of income and expense not recognised in profit or loss are now disclosed as components of 'other comprehensive income'.
- the adoption of the single statement approach to the Statement of Comprehensive Income; and
- other financial statements are renamed in accordance with the Standard.

Business Combinations and Consolidation Procedures

- Revised AASB 3 is applicable prospectively from 1 July 2009. Changes introduced by this Standard, or as a consequence of amendments to other Standards relating to business combinations which are expected to affect the Group, include the following:
- All business combinations, including those involving entities under common control, are accounted for by applying the acquisition method which prohibits the recognition of contingent liabilities of the acquiree at acquisition date that do not meet the definition of a liability.
Costs incurred that relate to the business combination are expensed instead of comprising part of the goodwill acquired on consolidation.
Changes in the fair value of contingent consideration payable are not regarded as measurement period adjustments and are recognised through profit or loss unless the change relates to circumstances which existed at acquisition date.
- Unrecognised deferred tax assets of the acquiree may be subsequently realised within 12 months of acquisition date on the basis of facts and circumstances existing at acquisition date with a consequential reduction in goodwill. All other deferred tax assets subsequently recognised are accounted for through profit or loss.
- The proportionate interest in losses attributable to non-controlling interests is assigned to non-controlling interests irrespective of whether this results in a deficit balance. Previously, losses causing a deficit to non-controlling interests were allocated to the parent entity.
- Where control of a subsidiary is lost, the balance of the remaining investment account shall be remeasured to fair value at the date that control is lost.

Operating Segments

- As a result of the adoption of AASB 8 "Operating Segments" from 1 July 2009, segments are identified and segment information disclosed on the basis of Internal reports that are regularly provided to, or reviewed by, the group chief operating decision maker which, for the Group, is the board of directors. The basis of reporting segment information is based on the company's four key geographical areas – Australia/NZ, Europe/UK, North America and Asia.

New Standards and Interpretations not yet Adopted

The following standards, amendments to standards and interpretations have been identified as those which any impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report.

(i) AASB 9 Financial Instruments includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 will become mandatory for the consolidated entity's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The consolidated entity has not yet determined the potential effect of the standard.

(ii) AASB 124 Related party Disclosures (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for consolidated entity's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.

(iii) AASB 2009-5 Further amendments to Australian Accounting Standards arising from the Annual Improvements Process affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the consolidated entity's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.

(iv) AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions resolves diversity in practice regarding the attribution of cash-settled share-based payments between different entities within a group. As a result of the amendments AI 8 Scope of AASB 2 – Group and Treasury Share Transactions will be withdrawn from the application date. The amendments, which will become mandatory for the consolidated entity's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.

(v) AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights issue (AASB 132) (October 2010) clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The amendments, which will become mandatory for the consolidated entity's 30 June 2011 financial statements, are not expected to have any impact on the financial statements.

(vi) AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement – AASB 14 make amendments to Interpretation 14 AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements removing an unintended consequence arising from the treatment of the prepayments of future contributions in some circumstances when there is a minimum funding requirement. The amendments will become mandatory for the consolidated entity's 30 June 2012 financial statements, with retrospective application required. The amendments are not expected to have any impact.

(v) IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. IFRIC 19 will become mandatory for the consolidated entity's 30 June 2011 financial statements, with retrospective application required. The consolidated entity has not yet determined the potential effect of the interpretation.

The financial report was authorised for issue on 31st August 2010 by the Board of Directors.

Note 2 Revenue

	Note	Consolidated Group 2010 $	2009 $
Sales Revenue			
- sale of goods		1,586,873	615,438
Total Sales Revenue		1,586,873	615,438
Other Income			
- interest received	2(a)	11,539	31,023
- export development/ r&d grants		333,805	423,673
- foreign currency translation gains		9,166	-
- other income		1,443	15,439
Total Other Income		355,953	470,135
Total Sales Revenue and Other Income		1,942,826	1,085,573
(a) Interest revenue from:			
- other persons		11,539	31,023
Total interest revenue		11,539	31,023

Note 3 Loss for the Year

(a) Expenses

	2010 $	2009 $
Cost of sales	708,859	272,684
Finance costs:		
- other persons	83,598	130,924
Total finance costs	83,598	130,924
Rental expense on operating leases		
- minimum lease payments	132,875	187,119
Loss/(gain) on disposal of property, plant and equipment	(1,443)	45,061
Depreciation of property plant and equipment	162,363	176,834
Amortisation of non-current assets		
- research and development expenditure	7,624	4,951
- Phoslock licence, patents and trademarks	329,756	336,852
Total amortization	337,380	341,803
Total depreciation and amortization	499,743	518,637
Impairment loss comprises:		
- Impairment of obsolete inventory	-	132,287
- Impairment of goodwill	-	59,393
- Impairment of investments	-	30,806

Note 4 Income Tax Expense

	Note	Consolidated Group 2010 $	Consolidated Group 2009 $
(a) Income tax expense			
- Current year		-	-
- Deferred tax		-	-
		-	-
(b) Numerical reconciliation of income tax expense is reconciled to the income tax expense as follows:			
Loss for the year for income tax		(1,875,569)	(2,749,715)
Prima facie tax payable on loss from ordinary activities before income tax at 30% (2009 30%)			
- consolidated group		(562,671)	(824,915)
Add:			
Tax effect of:			
- non-deductible depreciation and amortization		103,501	101,056
- other non-allowable items		90,909	155,778
- share options expensed during year		-	8,532
- deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(b) occur		368,261	582,324
		-	22,775
Less:			
Tax effect of:			
- share of net profits of associates netted directly		-	-
- other tax concessions & deductible amounts		-	22,775
Income tax attributable to entity		-	-
(c) Unrecognised deferred tax assets			
Tax losses		21,054,605	19,744,920
Potential tax losses		6,316,382	5,987,245
Temporary differences			
Accruals and provisions		234,713	182,562
Potential tax benefit		70,414	54,769
Total deferred tax assets not bought to account		6,386,795	5,987,245

(d) Unrecognised tax losses of foreign subsidiaries

IETC Environmental Protection Technology (Kunming) Ltd	(831,884)	(764,600)
Phoslock Water Solutions (UK) Co Ltd	(327,144)	(351,843)
Phoslock Europe GmbH	(306,783)	(140,003)

Losses detailed above have not been included in the unrecognised deferred tax assets at 4(c) above on the basis of the uncertainty regarding the availability of the losses in these jurisdictions.

Note 5 Key Management Personnel Compensation

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

(b)

Key Management Person	Position
Dr David Garman	Chairman - Non Executive
Mr Robert Schuitema	Managing Director and Company Secretary
The Hon. Pam Allan	Director - Non Executive
Mr Eddie Edmunds	General Manager - North America
Mr Nigel Traill	General Manager - Europe, Africa and The Middle East
Dr Sarah Groves	General Manager - Technical
Mr Andrew Winks	General Manager - Operations

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

	Consolidated Group	
	2010	2009
	$	$
Short term employee benefits	925,809	1,093,393
Post employment benefits	86,737	102,800
Equity compensation benefits	-	40,000
Total compensation	1,012,546	1,236,193

(c) Options and Rights Holdings

Number of Options Held by Key Management Personnel

	Balance 1.07.2009	Options Acquired*	Options Exercised	Net Charge Other*	Balance 30.06.2010	Total Vested 30.06.2010	Total Exercisable 30.06.2010	Total Unexercisable 30.06.2010
	No.	No.	No.	No.	No.	No.	No.	No.
Dr David Garman	500,000	454,545	(227,273)	(500,000)	227,272	227,272	227,272	-
Mr Robert Schuitema	4,227,272	681,817	(454,545)	(2,000,00)	2,454,544	2,454,544	2,454,544	-
The Hon. Pam Allan	500,000	150,000	-	(250,000)	400,000	400,000	400,000	-
Mr Eddie Edmunds	1,000,000	90,909	-	(1,000,00)	90,909	90,909	90,909	-
Mr Nigel Traill	590,909	90,909	-	(590,909)	90,909	90,909	90,909	-
Dr Sarah Groves	250,000	90,909	-	(250,000)	90,909	90,909	90,909	-
Mr Andrew Winks	150,000	-	-	(150,000)	-	-	-	-
Total	7,218,181	1,559,089	(681,818)	(4,740,909)	3,354,544	3,354,544	3,354,544	-

*Options (exercisable at 11cps on or before 10 August, 2010) issued with shares purchased at 11cps

The Net Change Other column above includes those options that have been forfeited by holders.

(d) **Shareholdings**

Number of Shares hold by Key Management Personnel

	Balance 1.07.2009	Received as Compensation	Options Exercised	Net Charge Other*	Balance 30.06.2010
Key Management Personnel					
Dr David Garman	800,000	-	227,273	-	1,027,273
Mr Robert Schuitema	3,476,888	-	454,545	640,354	4,571,787
The Hon. Pam Allan	-	-	-	150,000	150,000
Mr Eddie Edmunds	-	-	-	90,909	90,909
Mr Nigel Traill	2,864,165	-	-	90,909	2,955,074
Dr Sarah Groves	100,000	-	-	90,909	190,909
Mr Andrew Winks	100,000	-	-	-	100,000
Total	7,341,053	-	681,818	1,063,081	9,085,952

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

Note 6 Auditors Remuneration

	Consolidated Group	
	2010	2009
	$	**$**
Remuneration of the auditor of the parent entity for:		
- auditing or reviewing the financial report	65,000	60,800
Remuneration of other auditors of subsidiaries for:		
- auditing or reviewing the financial report of subsidiaries	7,000	9,500

Note 7 Earnings per Share

(a) Reconciliation of earnings to profit or loss		
Profit / (Loss)	(1,875,569)	(2,749,715)
Profit / (Loss) attributable to minority equity interest	98,084	133,410
Earnings used to calculate basic EPS	(1,777,485)	(2,616,305)
Earnings used in the calculation of dilutive EPS	(1,777,485)	(2,496,305)
(b) Reconciliation of earnings to loss from continuing operations		
Loss from continuing operations	(1,875,569)	(2,749,715)
Loss attributable to minority equity interest in respect of continuing operations	98,084	133,410
Earnings used to calculate basic EPS from continuing operations	(1,777,485)	(2,616,305)
Earnings used in the calculation of dilutive EPS from continuing operations	(1,777,485)	(2,496,305)
	No.	No.
(c) Weighted average number of ordinary shares outstanding during the year used in calculating	183,629,848	163,260,275
Weighted average number of options outstanding	8,583,557	7,977,766
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	192,213,405	171,238,041

(d) Classification of securities

As at reporting date, conditions which would result in the exercise of the options and issue of shares had not been met.

Note 8 Cash and Cash Equivalents

	Note	Consolidated Group 2010 $	2009 $
Cash at bank and in hand		262,883	327,148
Short-term bank deposits		200,000	200,000
		462,883	527,148

The effective interest rate on short-term bank deposits was 5.00% (2009: 5.0%); these deposits have an average maturity of 120 days.

Reconciliation of cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:

Cash and cash equivalents	462,883	527,148
	462,883	527,148

Note 9 Trade and Other Receivables

	Note	2010	2009
CURRENT			
Trade receivables		632,786	459,048
Provision for impairment of receivables	9(a)	-	-
		632,786	459,048
Other receivables		339,932	57,990
		972,718	517,038
NON-CURRENT			
Other receivables		-	361,190
		-	361,190

(a) Provision For Impairment of Receivables

Current trade receivables are generally on 30 day terms. Non-current trade and term 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.

Movement in the provision for impairment of receivables is as follows:

	Opening Balance 1.07.2009	Charge for the Year	Amounts Written Back	Closing Balance 30.06.2010
	$	$	$	$
Current trade receivables	-	-	-	-

Note 10 Inventories

	Consolidated Group	
	2010	2009
	$	**$**
CURRENT		
At cost		
Raw materials and stores	69,674	121,460
Finished goods	1,068,628	940,026
	1,138,302	1,061,486

Note 11 Investments Accounted for Using the Equity Method

	Note		
Associated companies	12a	-	-
		-	-

Note 12 Associated Companies

Interests are held in the following associated companies

Name	Principal Activities	Country of Incorporation	Shares	Ownership Interest		Carrying Amount of Investments	
				2010	2009		
						$	$
Unlisted:							
Phoslock Africa Pty Ltd	Phoslock sales	South Africa	Ord	50	50	-	-
						-	-

(a) Movements during the Year in Equity Accounted Investments in Associated Companies

	Note	Consolidated Group	
		2010	2009
		$	**$**
Balance at beginning of the financial year		-	30,806
Less: Impairment of Investment		-	(30,806)
Share of associated company's profit after income tax	12b	-	-
Balance at end of the financial year		-	-

Note 13 Parent Entity Information

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

(a) Parent Entity Financial Information

	2010 $	2009 $
Current assets	4,654	3,087
Non-current assets	4,231,366	4,661,035
Total assets	4,236,020	4,664,122
Current liabilities	-	1,043,726
Non-current liabilities	-	-
Total liabilities	-	1,043,726
Net assets	4,236,020	3,620,396
Issued Capital	29,282,930	26,854,350
Share based payment reserve	1,006,753	1,006,753
Accumulated losses	(26,053,663)	(24,240,707)
Total Equity	4,236,020	3,620,396
Loss after income tax	(1,808,302)**	(19,942,514)*
Other comprehensive income	-	-
Total comprehensive income	(1,808,302)**	(19,942,514)*

*Includes write down of receivables of wholly owned subsidiaries - $19,758,436

** Includes write down of receivables of wholly owned subsidiaries - $1,718,038

(b) Controlled Entities of the Parent Entity

	Country of Incorporation	Percentage Owned (%)*	
		2010	2009
Subsidiaries of Phoslock Water Solutions Limited :			
Phoslock Pty Ltd	Australia	100	100
Phoslock Technologies Pty Ltd	Australia	100	100
Yunnan Jinxingyan Environmental Conservational Consultative	China	100	100
Purezza Marketing Inc	USA	100	100
IETC Environmental Protection Technology (Kunming) Ltd	China	71	71
Phoslock Water Solutions UK Co Ltd	United Kingdom	100	100
Phoslock Europe GmbH	Switzerland	60	60

*Percentage of voting power is in proportion to ownership

Note 14 Plant and Equipment

	Consolidated Group	
	2010	2009
	$	**$**
Plant and Equipment		
At cost	1,292,371	1,277,356
Accumulated depreciation	(970,286)	(792,180)
	322,085	485,176

(a) Movements in Carrying Amounts

Movements in carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

	Plant and Equipment	Total
	$	**$**
Balance at 1 July 2009	695,744	695,744
Additions	3,385	3,385
Disposals	(76,704)	(76,704)
Depreciation expense	(176,834)	(176,834)
Exchange differences	39,585	39,585
Balance at 30 June 2009	485,176	485,176
Additions	15,015	15,015
Disposals	(122)	(122)
Depreciation expense	(162,363)	(162,363)
Exchange differences	(15,621)	(15,621)
Balance at 30 June 2010	322,085	322,085

Note 15 Intangible Assets

	Consolidated Group 2010 $	Consolidated Group 2009 $
Goodwill		
Cost	401,977	401,977
Accumulated impaired losses	(401,977)	(401,977)
Net carrying value	-	-
Trademarks and licences		
Cost	4,159,660	4,153,188
Accumulated amortisation and impairment	(1,768,920)	(1,439,244)
Exchange differences	(4,872)	-
Net carrying value	2,385,868	2,713,944
Development costs		
Cost	323,740	323,740
Accumulated amortisation and impairment	(266,566)	(258,942)
Net carrying value	57,174	64,798
Total intangibles	2,443,042	2,778,742

Consolidated Group:	Goodwill $	Trademarks & Licences $	Development Costs $	Total $
Balance as at 30 June 2008	59,393	2,979,960	69,749	3,109,102
Additions	-	47,975	-	47,975
Amortisation charge	(59,393)	(336,852)	(4,951)	(401,196)
Exchange differences	-	22,861	-	22,861
Balance as at 30 June 2009	-	2,713,944	64,798	2,778,742
Additions	-	6,472	-	6,472
Amortisation charge	-	(329,676)	(7,624)	(337,300)
Exchange differences	-	(4,872)	-	(4,872)
Closing value at 30 June 2010	-	2,385,868	57,174	2,443,042

Intangible assets, other than goodwill, have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense per the income statement. Goodwill has an infinite life.

Impairment Disclosures

The recoverable amount of each intangible asset above is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a 7 ½ year period using estimated growth rates. The cash flows are discounted at a rate of 13%.

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

Note 16 Other Assets

	Consolidated Group	
	2010	2009
	$	**$**
CURRENT	68,425	61,997
Prepayments	68,425	61,997

Note 17 Trade and Other Payables

CURRENT		
Unsecured liabilities		
Trade payables	333,664	295,508
Sundry payables and accrued expenses	31,000	53,840
	364,664	349,348

Note 18 Financial Liabilities

	Note		
CURRENT			
Unsecured liabilities			
Converting notes		-	1,043,726
	18(a)	-	1,043,726
Secured liabilities			
Lease liability	22	17,593	6,883
		17,593	1,050,609
NON-CURRENT			
Unsecured liabilities			
Joint venture partner loan		130,977	77,679
		130,977	77,679
Secured liabilities			
Lease liability	22	-	17,592
		130,977	95,271

(a) Converting Notes

Converting notes were issued as a source of finance on 18 February 2008. The notes matured on 18 August 2009. Interest was payable six monthly at a rate of 12% per annum. Payment of interest and funds due at maturity was settled by the issue of fully paid shares in the parent company at a A$0.18 per share in accordance with the terms and conditions of the note deed dated 18 February 2008.

Note 19 Provisions

	Consolidated Group	
CURRENT	2010	2010
	$	**$**
Employee Entitlements		
Opening balance at 1 July 2009	78,723	86,372
Additional provisions	73,364	74,241
Amounts used	(33,832)	(81,890)
Balance at 30 June 2010	118,255	78,723
NON CURRENT		
Employee Entitlements		
Opening balance at 1 July 2009	50,000	49,209
Additional provisions	22,458	19,930
Amounts used	-	(19,139)
Balance at 30 June 2010	72,458	50,000
Analysis of Total Provisions		
Current	118,255	78,723
Non-current	72,458	50,000
	190,713	128,723

Provision for Long-term Employee Benefits
A provision has been recognised for employee entitlements relating to long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been included in Note 1 to this report.

Note 20 Issued Capital

	Consolidated Group	
	2010	2009
186,530,580 (2009: 167,805,462) fully paid ordinary shares	**$**	**$**
	29,282,930	26,854,352
	29,282,930	26,854,352

		Consolidated Group		Consolidated Group	
(a) Ordinary Shares		2010	2010	2009	2009
		No.	**$**	**No.**	**$**
At the beginning of reporting year		167,805,462	26,854,352	150,633,784	24,977,235
Shares issued during year					
	18-Aug-08	-	-	358,033	53,705
	18-Aug-08	-	-	9,561,817	1,051,800
	16-Oct-08	-	-	5,000,000	550,000
	20-Oct-08	-	-	39,778	5,966
	17-Dec-08	-	-	500,000	55,000
	24-Feb-09	-	-	362,959	54,445
	6-Apr-09	-	-	420,000	42,000
	30-Jun-09	-	-	20,000	2,000
	30-Jun-09	-	-	909,091	100,000
	10-Aug-09	5,593,884	615,325	-	-
	10-Aug-09	357,041	53,558	-	-
	18-Aug-09	5,555,556	1,000,000	-	-
	25-Aug-09	4,988,637	548,750	-	-
	22-Oct-09	2,000,000	220,000	-	-
	30-Nov-09	80,000	12,000	-	-
	30-Nov-09	150,000	16,500	-	-
Transaction Costs			(37,555)		(37,799)
At reporting date		186,530,580	29,282,930	167,805,462	26,854,352

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

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

(b) Options

(i) For information relating to Phoslock Water Solutions Limited employee options, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end. Refer to Note 25: Share-based Payments.

(ii) For information relating to share options issued to key management personnel during the financial year. Refer to Note 25: Share-based Payments.

(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.
There are no externally imposed capital requirements.

Management effectively manage 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.

There have been no changes in the strategy adopted by management to control the capital of the group since the prior year. This strategy is to ensure that the group's gearing ratio remains below 30%. The gearing ratios for the year ended 30 June 2010 and 30 June 2009 are as follows:

	Note	Consolidated Group	
		2010	2009
		$	**$**
Total borrowings	17, 18	513,234	1,495,229
Less cash and cash equivalents	8	(462,883)	(527,148)
Net debt		50,351	960,081
Total equity		4,703,508	4,168,826
Total assets		5,407,455	5,792,777
Gearing ratio		1%	17%

Note 21 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

Note 22 Capital and Leasing Commitments

	Note	Consolidated Group	
		2010	2009
		$	$
a) Finance Lease Commitments			
Payable - minimum lease payments			
- not later than 12 months		17,849	8,788
- between 12 months and 5 years		-	17,850
- greater than 5 years		-	-
Minimum lease payments		17,849	26,638
Less future finance charges		(256)	(2,163)
Present value of minimum lease payments	18	17,593	24,475

The finance lease, on a motor vehicle, commenced in 2006, and has a payment period of 4 years with an option to refinance at the end (August 2010).

(b) Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the			
Payable - minimum lease payments			
- not later than 12 months		63,514	175,153
- between 12 months and 5 years		104,654	143,261
- greater than 5 years		13,082	40,584
		181,250	358,998

Lease 1 is a non-cancelable lease expiring 30 September, 2010. Rent is payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments to be increased by the higher of CPI or 4% per annum. The lease is not being renewed and PWS will move to smaller premises in late September, 2010 A significant cost saving is anticipated.

Lease 2 is a non-cancelable lease expiring 1 January, 2015. Rent is payable monthly in advance. Contingent rental provisions within the lease agreement provides renewal options by negotiation. The lease contains no provision for subletting of leased areas.

Note 23 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 item*s

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;

Comparative information

This is the first reporting period in which AASB 8: Operating Segments has been adopted. Comparative information has been restated to conform to the requirements of the Standard.

(i) Segment performance

	Australia/NZ	Europe/UK	North America	Asia	Total	Eliminations	Total
	$	$	$	$	$	$	$
Year ended 30 June 2010							
Revenue							
External sales	439,454	753,362	347,061	46,996	1,586,873	-	1,586,873
Inter-segment sales	24,823	-	-	526,176	550,999	(550,999)	-
Other revenue	344,345	69	-	-	344,414	-	344,414
Total segment revenue	808,622	753,431	347,061	573,172	2,482,286	(550,999)	1,931,287
Reconciliation of segment revenue to group revenue							
Unallocated interest income							11,539
Total group revenue							1,942,826
Segment loss before tax	(556,966)	(126,127)	(50,000)	24,806	(708,287)	-	(708,287)
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	(494,238)	(1,975)	-	(101,614)	(597,827)	-	(597,827)
Unallocated items:							
• Corporate charges							(485,857)
• Finance costs							(83,598)
Loss before income tax from continuing operations							(1,875,569)

	Australia/NZ	Europe/UK	North America	Asia	Total	Eliminations	Total
	$	$	$	$	$	$	$
Year ended 30 June 2009							
Revenue							
External sales	48,676	545,754	13,061	7,947	615,438	-	615,438
Inter-segment sales	-	-	-	84,242	84,242	(84,242)	-
Other revenue	439,112	-		-	439,112	-	439,112
Total segment revenue	487,788	545,754	13,061	92,189	1,138,792	(84,242)	1,054,550
Reconciliation of segment revenue to group revenue							
Unallocated interest income							31,023
Total group revenue							1,085,573
Segment loss before tax	(1,103,875)	(136,923)	(70,000)	(168,283)	(1,479,081)	-	(1,479,081)
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	(550,325)	(3,080)	-	(98,642)	(652,047)	-	(652,047)
Unallocated items:							
• Corporate charges							(487,663)
• Finance costs							(130,924)
Loss before income tax from continuing operations							(2,749,715)

	Australia/NZ	Europe/UK	North America	Asia	Total	Eliminations	Total
	$	$	$	$	$	$	$
30 June 2010							
Segment assets	3,124,108	80,247	-	527,212	3,731,567	(767,154)	2,964,413
Unallocated assets- intangibles							2,443,042
Total group assets							5,407,455
30 June 2009							
Segment assets	2,998,354	144,939	-	673,542	3,816,835	(802,800)	3,014,035
Unallocated assets- intangibles							2,778,742
Total group assets							5,792,777

(iii) Segment liabilities

	Australia/NZ	Europe/UK	North America	Asia	Total	Eliminations	Total
	$	$	$	$	$	$	$
30 June 2010							
Segment liabilities	378,840	690,016	-	502,785	1,571,641	(867,694)	703,947
Unallocated liabilities							-
Total group liabilities							703,947
30 June 2009							
Segment liabilities	1,331,481	612,617	-	559,170	2,503,268	(879,317)	1,623,951
Unallocated liabilities							-
Total group liabilities							1,623,951

(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 42% of external revenue (2009 41%).

Note 24 Cash Flow Information

	Consolidated Group	
	2010	2009
(a) Reconciliation of Cash Flow from Operations with Profit after Income Tax	**$**	**$**
Profit after income tax	(1,875,569)	(2,749,715)
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit		
Amortisation	337,380	341,803
Depreciation	162,363	176,834
Net exchange differences	(15,305)	301,777
Impairment of goodwill	-	59,393
Net (gain)/loss on disposal of plant & equipment	(1,443)	45,061
Net loss on disposal of investments	-	30,806
Share options expensed	-	28,440
Share issues expensed	70,000	44,000
Interest on converting notes	21,830	114,116
Changes in assets and liabilities:		
(Increase)/decrease in trade and term receivables	(94,490)	(44,172)
(Increase)/decrease in prepayments	(6,429)	13,428
(Increase)/decrease in inventories	(76,816)	46,074
Increase/(decrease) in trade payables and accruals	23,555	(112,180)
Increase/(decrease) in provisions	61,990	(6,858)
Cash flow used in operating activities	(1,392,934)	(1,711,193)

Note 25 Share-based Payments to executives and directors

No share-based payments were made to executives or directors during the year (2009: $0)

Note 26 Options

All options granted are ordinary shares in Phoslock Water Solutions Limited which confer a right of one ordinary share for every option held.

	Consolidated Group			
	2010		2009	
		Weighted Average Exercise Price	**Number of Options**	**Weighted Average Exercise Price**
		$		**$**
Outstanding at the beginning of the year	21,290,637	0.32	27,322,913	0.28
Granted	13,032,521	0.11	5,492,724	0.44
Forfeited	(1,350,000)	0.50	(800,000)	0.37
Exercised	(681,817)	0.11	-	0.23
Expired	(11,210,907)	0.25	(10,725,000)	0.20
Outstanding at year-end	21,080,434	0.20	21,290,637	0.32
Exercisable at year-end	21,080,434	0.20	17,775,000	0.29

13,032,521 options were issued during the year ended 30 June 2010. These options had a weighted average share price of $0.11 at exercise date.

The options outstanding at 30 June 2010 had a weighted average exercise price of $0.20 and a weighted average remaining contractual life of 0.2 years. Exercise prices range from $0.11 to $0.50 in respect of options outstanding at 30 June 2010.

The weighted average fair value of the options granted during the year was $0.01
This price was calculated by using a Black Scholes option pricing model applying the following inputs:

Weighted average exercise price	$0.11
Weighted average life of the option	1.0 years
Underlying share price	$0.11
Expected share price volatility	30%
Risk free interest rate	5.6%

Historical volatility has been the basis for determining expected share price volatility as it assumed that this is indicative of future tender, which may not eventuate.

The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

Note 27 Events After the Balance Sheet Date

No material events occurred after the balance date.

Note 28 Related Party Transactions

	Consolidated Group	
	2010	2009
	$	**$**
Transactions between related parties are on normal commercial terms and conditions no more favorable than those available to other parties unless otherwise stated.		
Transactions with related parties:		
(a) Associated Companies		
Sale of Phoslock granules by Phoslock Pty Ltd to Phoslock Europe GmbH	24,823	-
Payment of Commission from PWS (UK) Ltd to Phoslock Europe GmbH	17,119	10,843
(b) Relatives of Specified Executives		
Services provided on normal commercial basis by parties related to specified executives		
Margaret Schuitema	60,000	15,000
Yolanda Winks	18,333	-
Paige Edmunds	9,000	-
	87,333	15,000

Note 29 Going Concern

The consolidated entity recorded an operating loss of $1,777,485 for the year ended 30 June 2010 (2009: loss of $2,616,305) and at that date had accumulated losses of $25,712,862 (2009: $23,935,377). At the date this report was authorised for issue the consolidated entity had cash reserves of $280,000 from which to fund future operations, a $102,000 of which is held in Australia.

The directors are satisfied that it is appropriate to report that the company as a going concern based on the following reasons:

(i) the company's ability to increase sales from current levels in key markets (Australia, Europe and UK, North America, China and other parts of Asia);
(ii) the company's ability of management to control costs;
(iii) the company's ability to raise additional funds from the issue of new shares if required.

The company is currently working on 17 separate projects (each greater than $100,000) with a total sales value in excess of $7,000,000 in our key markets (2 in Australia, 7 in Europe/UK, 4 in Asia, 4 in North America) with sales decisions due over the next 12 months.

The company is also undertaking trial applications in certain key markets where a positive outcome of these trials will lead to a project of significant status getting approval to go ahead. Several of these projects are in the range of $5 -$10 million sales value. Decisions on some of these projects are expected over the next 6-24 months.

In support of ongoing liquidity of the group, management has prepared forecasts for the 12 month period ended 31 August 2011. These forecasts assume that the company will be successful in the following during this period:

Note 29 Going Concern (continued)

- Sales of a minimum of $2.6 million (management are forecasting a low of $3 million and high of $5 million);
- Purchase approx $0.5 million of new inventory from Chinese Joint Venture;
- Operating costs being maintained at a consistent level of $200,000 per month;
- Approval and receipt of approx $0.45m of Export Development and Research & Development Grants relating to FY2008/09 and FY2009/10. Three of the four grant applications have been lodged and are currently being processed;
- Settlement of the balance of the Volclay receivable in relation to the sale of the Miles bentonite mine of $335,000
- The company undertaking an equity raising during the financial year of a minimum of $1.0 million.

If the above is achieved the company will have a consolidated cash balance of approx $1.4 million as at 31 August 2011.

The ongoing financial viability of the Company and its ability to continue as a going concern is heavily dependent on the Company's ability to convert projects in the current pipeline into sales as detailed above, and its ability to achieve the underlying assumptions in the forecasts as outlined above.

Note 30 Financial Risk Management

(a) Financial Risk Management Policies

The group's financial instruments consist mainly of deposits with banks, accounts receivable and payable, leases, and converting notes.

(i) **Financial Risk Exposures and Management**

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 29 (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 29 (b) for further details.

Liquidity risk

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

Credit risk

Credit risk is the exposure to financial loss to the consolidated entity if a customer fails to meet its contractual obligation and arises from the consolidated entity's trade receivables. The consolidated group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into.

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

(i) **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.

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing Within 1 Year		Fixed Interest Rate Maturing 1 to 5 years	
	%		$		$		$	
	2010	2009	2010	2009	2010	2009	2010	2009
Financial Assets:								
Cash and cash equivalents	4.0	4.0	403,524	459,542	59,359	67,606	-	-
Trade and other receivables			-	-	-	-	-	-
Total Financial Assets			403,524	459,542	59,359	67,606	-	-

	Fixed Interest Rate Over 5 Years		Non-interest Bearing		Total	
	$		$		$	
	2010	2009	2010	2009	2010	2009
Financial Assets:						
Cash and cash equivalents	-	-	-	-	462,883	527,148
Trade and other receivables	-	-	972,718	878,228	972,718	878,228
Total Financial Assets			972,718	878,228	1,435,601	1,405,376

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing Within 1 Year		Fixed Interest Rate Maturing 1 to 5 years	
	%		$		$		$	
	2010	2009	2010	2009	2010	2009	2010	2009
Financial Liabilities:								
Converting Notes*	-	12.0	-	-	-	1,043,726	-	-
Trade and sundry payables			-	-	-	-	-	-
Lease liabilities	9.5	9.5	-	-	17,593	6,883	-	17,592
Shareholder's loan			-	-	-	-	-	-
Total Financial Liabilities			-	-	17,593	1,050,609	-	17,592

	Fixed Interest Rate Over 5 Years		Non-interest Bearing		Total	
	$		$		$	
	2010	2009	2010	2009	2010	2009
Financial Liabilities:						
Converting Notes*****	-	-			-	1,043,726
Trade and sundry payables	-	-	364,664	349,348	364,664	349,348
Lease liabilities	-	-	-	-	17,593	24,475
Shareholder's loan	-	-	130,977	77,679	130,977	77,679
Total Financial Liabilities	-	-	495,641	427,027	513,234	1,495,228

***** Converting into PWS shares pursuant to terms of converting notes deed dated 18 February 2008.

Trade and sundry payables are expected to be paid as follows:

	2010	2009
	$	**$**
Less than 6 months	364,664	349,348
6 months to 1 year	-	-
1-5 years	-	-
Over 5 years	-	-
Total contractual cash flows	364,664	349,348
Carrying amount	364,664	349,348

Financial liabilities are expected to be paid as follows:

	2010	2009
Less than 6 months	17,850	4,395
6 months to 1 year	-	4,395
1-5 years	130,977	95,619
Over 5 years	-	-
Total contractual cash flows	148,827	104,409
Carrying amount	148,570	102,154

(ii) Net Fair Values

The net fair values of other assets and liabiliites approximate their carrying value. No financial assets or liabilities are readily tradable on organized markets in standardised form. The aggregate fair values and carrying amounts of financial assets and liabilities are disclosed in the statement of financial position and in the notes to the financial statements.

Financial assets where the carrying amount exceeds net fair values have not been written down as the consolidated group intends to hold these assets to maturity.

(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 2010, 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:

	Consolidated Group	
	2010	2009
	$	**$**
Change in profit		
- Increase in interest rate by 1 %	4,600	5,200
- Decrease in interest rate by 1%	(4,600)	(5,200)
Change in equity	-	-
- Increase in interest rate by 1 %	4,600	5,200
- Decrease in interest rate by 1%	(4,600)	(5,200)

Foreign Currency Risk and Sensitivity Analysis

As at 30 June 2010, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the US Dollar on sales of US$1,000,000 with all other variables remaining constant is as follows:

Change in profit		
- Improvement in AUD to USD by 10%	(107,000)	(114,000)
- Decline in AUD to USD by 10%	130,000	130,000
Change in equity	-	-
- Improvement in AUD to USD by 10%	(107,000)	(114,000)
- Decline in AUD to USD by 10%	130,000	130,000

As at 30 June 2010, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the Euro on sales of E1,000,000 with all other variables remaining constant is as follows:

Change in profit		
- Improvement in AUD to Euro by10%	(130,000)	(190,000)
- Decline in AUD to Euro by 10%	159,000	160,000
Change in equity	-	-
- Improvement in AUD to Euro by 10%	(130,000)	(190,000)
- Decline in AUD to Euro by 10%	159,000	160,000

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

Note 31 Company Details

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

Phoslock Water Solutions Limited
3/81 Frenchs Forest Road
Frenchs Forest NSW 2086

Director's Declaration

The directors of the Company declare that:

1. the financial statements and notes, as set out on pages 18 to 55, are in accordance with the Corporations Act 2001 and:

(a) comply with Accounting Standards, which, as stated in Note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and

(b) give a true and fair view of the financial position as at 30 June 2010 and of the performance for the year ended on that date of the Company and consolidated group;

2. the Chief Executive and Chief Financial Officer have declared that:

(a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;

(b) the financial statements and notes for the financial year comply with the Accounting Standards; and

(c) the financial statements and notes for the financial year give a true and fair view.

3. in the director's opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Mr Robert Schuitema - Managing Director
Declared this 31st day of August 2010

Dr David Garman - Chairman of Directors
Declared this 31st day of August 2010

INDEPENDENT AUDITOR'S REPORT

To the members of Phoslock Water Solutions Limited

Report on the Financial Report

We have audited the accompanying financial statements of Phoslock Water Solutions Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statements for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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 Auditing 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 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.

Liability Limited by a scheme approved under Professional Standards Legislation other than for the acts or omissions of financial services licensees

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Independence

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

Auditor's Opinion

In our opinion the financial statements of Phoslock Water Solutions Limited are in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

(b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

The financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 29 in the financial statements which indicates that the company incurred a net loss of $1,777,485 during the year ended 30 June 2010 , and as of that date, the company had accumulated losses of $25,712,862. Note 29 also indicates that at the date of this report the company had cash reserves of $280,000, a $102,000 of which is in Australia. These conditions, along with the other matters as set forth in Note 29, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern.

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 9-14 of the directors' report for the year ended 30 June 2010. 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.

Auditor's Opinion

In our opinion the Remuneration Report of Phoslock Water Solutions Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001.*

WHK Horwath

WHK HORWATH

VDeWaal

VANESSA DE WAAL
Principal

Brisbane, 31 August 2010.