

# Notice of General Meeting and Explanatory Memorandum

## Phoslock Water Solutions Limited ACN 099 555 290

---

Date: Friday, 16 June 2017

Time: 9:00 am

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

In this document you will find:	Page No
A letter from the Chair outlining the items of business at the Meeting	1
A Notice of Meeting	2
An Explanatory Memorandum containing information about the Resolutions	5
A Proxy Form (returnable before 9.00 am on Thursday, 15 June 2017)	Enclosed

# Phoslock Water Solutions Limited

ACN 099 555 290

Dear Shareholder,

I am pleased to invite you to attend a general meeting of Phoslock Water Solutions Limited (**Phoslock or Company**) to be held at 9.00 am on Friday, 16 June 2017. The Meeting will be held at the offices of the Company at Suite 403, 25 Lime Street, Sydney, NSW.

The main purpose of the Meeting is to approve the issue of securities in connection with a significant agreement the Company executed on 10 April 2017 with China Environmental Corporation (Australia) Pty Ltd (**CEC**). Together with another significant agreement which the Company executed on 4 May 2017 with Beijing BHZQ Environmental Engineering Technology Co., Ltd (**BHZQ**), the agreement with CEC is expected to underpin a significant broadening of the Company's Chinese business and diversification of its sales and earnings. This is also in conjunction with the Company's establishment of a wholly-owned subsidiary, Phoslock Beijing, which will undertake end-to-end design, engineering, application and maintenance of water remediation in rivers, canals and lakes across China.

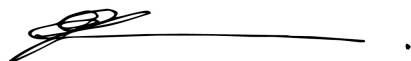
The Company's co-operation with CEC is expected to provide a platform for greatly expanding the Company's sales in China. The Company expects before the Meeting to have issued to CEC 30 million Shares at a placement price of 7 cents per Share, raising \$2.1 million. The share placement was announced on 10 April, 2017. The placement price was an approximately 30% discount to the 30 day VWAP. After the share placement is completed, CEC will own approximately 7.5% of Phoslock's enlarged share capital. The Company has also agreed, subject to shareholder approval, to issue CEC 30 million Performance Options. CEC is owned by senior Chinese water industry executives and will, together with the Company, develop its business in China and potentially internationally. Those 26 month Performance Options have an exercise price which is approximately a 13% premium to the 30 day VWAP and only vest if Phoslock Beijing records commercial sales (including sales booked through Phoslock Shanghai) of not less than RMB100 million (approximately A\$20 million) or earns net profit before tax of not less than RMB 16 million (approximately A\$3 million) in aggregate for the period 10 April, 2016 to 30 June, 2019.

In addition, as announced to ASX on 4 May 2017, the Company has signed a Strategic Co-Operation Agreement with BHZQ, a 70% owned subsidiary of Beijing Enterprises Water Group Limited, a global top ten water company that is listed on the Hong Kong Stock Exchange with an approximately \$9 billion market capitalisation

The Resolutions to be considered at the Meeting are for the approval of the issue of Shares and Performance Options to CEC (or its nominee). If these Resolutions are not passed, the agreement with CEC (other than the abovementioned issue of the 30 million Shares) will not proceed and the Company's planned expansion in China will not occur in its current form. The Meeting will also consider Resolutions for the approval of issue of Performance Options to Phoslock Beijing executives, Mr Robert Schuitema (Phoslock's Managing Director) and other Phoslock employees and consultants. All Performance Options have significant sales or profitability hurdles which must be met before the Performance Options vest and can be exercised.

If you have any queries in relation to the Meeting, please contact the Company on (02) 8014 7611.

Yours sincerely,



**Laurence Freedman AM**  
**Chairman**  
**Sydney, Australia**  
**15 May 2017**

---

# Notice of General Meeting

**NOTICE IS GIVEN** that a general meeting of Phoslock Water Solutions Limited ACN 099 555 290 (**Phoslock** or **Company**) will be held at 9.00 am on Friday, 16 June 2017 at the offices of the Company at Suite 403, 25 Lime Street, Sydney, NSW.

The Explanatory Memorandum accompanying this Notice of Meeting is incorporated in, and forms part of, this Notice of Meeting. The Explanatory Memorandum has been prepared to provide Shareholders with an explanation of the items of business and the Resolutions to be proposed and considered at the Meeting.

All documents should be read in their entirety. If you are in any doubt about what to do, you should consult your legal, financial or other professional adviser.

## Agenda

### Item 1: Ratification of prior issue of Shares to CEC (Resolution 1)

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*"That, for the purposes of Listing Rule 7.4 and for all other purposes, Shareholders approve and ratify the issue of 30 million Shares to China Environmental Corporation (Australia) Pty. Ltd. (or its nominee) on the terms and in the manner detailed in the Explanatory Memorandum accompanying this Notice of Meeting."*

### Item 2: Approval of issue of Performance Options to CEC (Resolution 2)

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*"That, for the purposes of Listing Rule 7.1 and for all other purposes, Shareholders approve the issue of up to 30 million Performance Options to China Environmental Corporation (Australia) Pty. Ltd. (or its nominee) on the terms and in the manner detailed in the Explanatory Memorandum accompanying this Notice of Meeting."*

### Item 3: Approval of issue of Performance Options to Phoslock Beijing Executives (Resolution 3)

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*"That, for the purposes of Listing Rule 7.1 and for all other purposes, Shareholders approve the issue of up to 20 million Performance Options to certain employees and directors of Phoslock (Beijing) Environment Engineering Technology Co., Ltd on the terms and in the manner detailed in the Explanatory Memorandum accompanying this Notice of Meeting."*

### Item 4: Approval of issue of Performance Options to Mr Robert Schuitema (Resolution 4)

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*"That, for the purposes of Listing Rule 10.11 and for all other purposes, Shareholders approve the issue of up to 3 million Performance Options to Mr Robert Schuitema, the Company's Managing Director, on the terms and in the manner detailed in the Explanatory Memorandum accompanying this Notice of Meeting."*

### Item 5: Approval of issue of Performance Options to employees and consultants (Resolution 5)

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*"That, for the purposes of Listing Rule 7.1 and for all other purposes, Shareholders approve the issue of up to 11 million Performance Options to certain employees and consultants of the Company and its subsidiaries on the terms and in the manner detailed in the Explanatory Memorandum accompanying this Notice of Meeting."*

---

**Item 6: Approval of issue of Performance Options to a Related Party consultant (Resolution 6)**

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*"That, for the purposes of Listing Rule 10.11 and for all other purposes, Shareholders approve the issue of up to 1,000,000 Performance Options to Serenety Holdings Pty Ltd on the terms and in the manner detailed in the Explanatory Memorandum accompanying this Notice of Meeting."*

**Voting Exclusion Statement**

In accordance with the Listing Rules, the Company will disregard any votes cast on each Resolution referred to below by the persons named below in relation to that Resolution and any associates of those persons. In all cases, the Company will disregard votes by a person whose votes, in ASX's opinion, should be disregarded. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form or it is cast by the Chair as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides. The Resolutions to which voting exclusions apply and the excluded people are:

- Resolution 1, any person who participated in the issue;
- Resolutions 2, 3 and 5, a person who might participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed; and
- Resolutions 4 and 6, a person who is to receive securities in the Company;

In addition, in accordance with the Corporations Act, a vote must not be cast on Resolution 4 or 5 by a Key Management Personnel or a Closely Related Party of such a Key Management Personnel, acting as proxy, if their appointment does not specify the way the proxy is to vote on Resolution 4 or 5. However, this voting exclusion under the Corporations Act does not apply if the Chair of the Meeting is acting as proxy for a person who is entitled to vote and their appointment expressly authorises the Chair of the Meeting to exercise the proxy even if that Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel.

**By Order of the Board**

**Robert Schuitema**  
**Company Secretary**  
**Sydney, Australia**  
**15 May 2017**

---

## **Voting entitlement, proxies and corporate representatives**

### **1. Determination of voting entitlement**

In accordance with regulation 7.11.37 of the *Corporations Regulations 2001* (Cth), the Directors have determined that the Shares will be taken, for the purpose of determining those persons entitled to attend and vote at the Meeting, to be held by the persons who are registered as holding them as at 7.00 pm on Wednesday, 14 June 2017.

Accordingly, transactions registered after that time will be disregarded when determining entitlements to attend and vote at the Meeting.

### **2. Proxies**

A Shareholder who is entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote on behalf of the Shareholder. Where the Shareholder is entitled to cast 2 or more votes, the Shareholder may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise.

If the Shareholder appoints 2 proxies and the appointment does not specify the proportion or number of the Shareholder's votes each proxy may exercise, each proxy may exercise half of the votes (disregarding fractions).

A proxy need not be a Shareholder of the Company.

A Proxy Form accompanies this Notice of Meeting. The Proxy Form contains important information and other instructions which you should read carefully.

To be effective, the instrument appointing a proxy (and power of attorney or other authority, if any, under which it is signed or a certified copy of the power or authority) must be received by the Company, by hand delivery, post or facsimile not less than 24 hours prior to the Meeting, that is, by 9.00 am on Thursday, 15 June 2017 at the Company's registered office, being Suite 403, Level 4, 25 Lime Street, Sydney, NSW, 2000, facsimile (02) 8014 7625.

### **3. Corporate representatives**

A Shareholder which is a body corporate and which is entitled to attend and vote at the Meeting may appoint an individual as a representative to exercise all or any of the powers the body corporate may exercise at the Meeting or in the capacity of a Shareholder's proxy. The appointment may be a standing one. Unless otherwise specified in the appointment, the representative may exercise, on that body corporate's behalf, all of the powers that the body could exercise at the Meeting or in voting on a Resolution. The representative must present satisfactory evidence that he or she is authorised to act as the body corporate's representative prior to admission to the Meeting.

# Explanatory Memorandum

This Explanatory Memorandum is incorporated in, and forms part of, the accompanying Notice of Meeting. The purpose of this Explanatory Memorandum is to provide Shareholders with information relevant to the Resolutions proposed to be put to and considered by Shareholders at the Meeting.

Terms and expressions used in this Explanatory Memorandum, the Notice of Meeting and the Proxy Form have the meaning given to them in the “Definitions” section located at the end of this Explanatory Memorandum.

## **Item 1: Ratification of prior issue of Shares to CEC (Resolution 1)**

### **1. Background**

As announced on 10 April 2017, the Company has signed an agreement with CEC to provide a platform for greatly expanding the Company's sales in China. CEC is owned by senior Chinese water industry executives. As a part of this agreement, the Company expects before the Meeting to have issued CEC (or its nominee) to 30 million Shares at an issue price of 7 cents per Share. One half of the Shares were issued on 11 May, 2017 and the balance of the Shares are expected to be issued on or around 26 May, 2017. The Shares issued on 11 May, 2017 were issued to CEC and the balance of the Shares will be issued to the same company (or its nominee).

The Company's co-operation with CEC is expected to provide a platform for greatly expanding the Company's sales in China.

The Shares issued to CEC were within the 15% annual limit set out in Listing Rule 7.1 (described below) and Resolution 1 seeks ratification under Listing Rule 7.4 to refresh that limit.

### **2. Listing Rules 7.1 and 7.4**

Subject to a number of exceptions, Listing Rule 7.1 limits the number of equity securities that a listed company may issue or agree to issue without shareholder approval in any 12 month period to 15% of its issued ordinary shares.

Listing Rule 7.4 provides that where a listed company's shareholders ratify a prior issue of securities that did not breach Listing Rule 7.1, those securities will be treated as having been made with shareholder approval for the purposes of Listing Rule 7.1.

If Shareholders ratify the prior issue to CEC of 30 million Shares under Listing Rule 7.4, the Company will retain the flexibility to issue new Shares and other securities in future (without the need to obtain prior Shareholder approval) up to the 15% annual limit set out in Listing Rule 7.1 (outlined above).

### **3. Information required for Shareholder approval under the Listing Rules**

The following information is required by the Listing Rules:

1. The issue of the 30 million Shares to CEC (or its nominee) at an issue price of 7 cents per Share did not breach Listing Rule 7.1.
2. The Shares are on the same terms and rank equally with all other Shares on issue in the Company.
3. The funds raised from the issue of those Shares are intended to be used to expand sales and marketing coverage and technical support, predominantly in China, increase working capital including growing inventories and reduce the liabilities of the Company.

### **4. Board Recommendation**

The Board unanimously recommends that Shareholders vote in favour of Resolution 1.

## **Item 2: Approval of issue of Performance Options to CEC (Resolution 2)**

### **1. Background**

As a part of the Company's agreement with CEC, the Company has agreed, subject to Shareholder approval, to issue to CEC (or its nominee) up to 30 million Performance Options.

Resolution 2 seeks Shareholder approval to issue those Performance Options under Listing Rule 7.1.

### **2. Listing Rule 7.1**

As mentioned above in relation to Resolution 1, Listing Rule 7.1 limits the number of equity securities that a listed company may issue or agree to issue without shareholder approval in any 12 month period to 15% of its issued ordinary shares.

The Listing Rules permit a listed company to agree to issue equity securities in excess of that 15% annual limit, provided the issue of those equity securities is subject to shareholder approval.

If Shareholders approve the issue to CEC (or its nominee) of up to 30 million Performance Options under Listing Rule 7.1, the Company will issue the Performance Options to CEC (or its nominee) and those Performance Options will not be deducted in calculating the 15% annual limit set out in Listing Rule 7.1. If Shareholders do not approve the issue, the Company will not issue the Performance Options, its agreement with CEC will not proceed (other than the issue referred to in Resolution 1) and the Company's planned expansion in China will not occur in its current form.

### **3. Information required for Shareholder approval under Listing Rules**

The following information is required by the Listing Rules:

1. The Company will issue up to 30 million Performance Options to CEC (or its nominee) exercisable (subject to a vesting condition) at an exercise price of 10.5 cents per Performance Option on or before 5.00 pm on 20 December 2019 and otherwise on the terms set out below.
2. Subject to the Performance Option terms, the Performance Options will vest when Phoslock Beijing records commercial sales (including sales booked through Phoslock Shanghai) of not less than RMB100 million (approximately A\$20 million) or earns net profit before tax of not less than RMB16 million (approximately A\$3 million) in aggregate for the period 10 April 2016 to 30 June 2019. The Performance Options may vest prior to 30 June, 2019, if the performance criteria is met.
3. The agreement to issue the Performance Options is subject to the approval of Shareholders.
4. The Performance Options will be issued as soon as reasonably practicable after the date of the Meeting, but in any event within 3 months after the date of the Meeting.
5. The Performance Options, the subject of Resolution 2, will be issued for nil consideration. No funds will be raised from the issue. The Company will raise a total of \$3,150,000 if all the Performance Options are issued and exercised during the exercise period. It is anticipated that any funds raised from the exercise of the Performance Options will be used for working capital purposes of the Company. There is no guarantee that the Performance Options will be exercised in part or at all.

### **4. Terms of the Performance Options**

The terms of the Performance Options are as follows:

- each Performance Option entitles the holder, on exercise, to one Share;
- each Performance Option is exercisable at 10.5 cents per Performance Option;
- each Performance Option will expire at 5.00 pm on 20 December 2019;

- Performance Options may be exercised at any time on or after their vesting but prior to their expiry;
- the Performance Options will vest only if Phoslock Beijing records commercial sales (including sales booked through Phoslock Shanghai) of not less than RMB100 million (approximately A\$20 million) or earns net profit before tax of not less than RMB16 million (approximately A\$3 million) in aggregate for the period 10 April 2016 to 30 June 2019 (**vesting conditions**);
- the Performance Options may vest early if the vesting conditions are met earlier than 30 June 2019;
- Performance Options which have not vested may not be exercised;
- all Shares issued on the exercise of the Performance Options will rank equally with all other Shares on issue in the Company;
- unless all Performance Options are being exercised, Performance Options must be exercised in integral multiples of 1,000,000 Performance Options;
- there are no participating rights or entitlements inherent in the Performance Options;
- the Company will not apply to ASX for official quotation of the Performance Options;
- the Company will apply for official quotation by ASX of all Shares issued upon the exercise of the Performance Options;
- if the Company makes a bonus issue of Shares to existing Shareholders, the number of Shares over which Performance Options are exercisable may be increased by the number of Shares that the holder would have received if the holder had exercised the Performance Options immediately before the record date for the bonus issue;
- if the Company makes a pro-rata issue (other than a bonus issue) of Shares to existing Shareholders after the date of issue of the Performance Options, the exercise price of a Performance Option will be adjusted in accordance with the formula set out in Listing Rule 6.22.2; and
- in the event of any reconstruction of the issued capital of the Company prior to the expiry date of the Performance Options, all rights of the Performance Option holder will be varied in accordance with the Listing Rules.

The above vesting conditions apply to the Performance Options referred to in Resolutions 2 and 3 but do not apply to the Performance Options referred to in Resolutions 4, 5 and 6, which have different vesting conditions, as outlined below.

## **5. Board Recommendation**

The Board unanimously recommends that Shareholders vote in favour of Resolution 2.

### **Item 3: Approval of issue of Performance Options to Phoslock Beijing executives (Resolution 3)**

#### **1. Background**

The Company proposes, subject to Shareholder approval, to issue up to 20 million Performance Options to employees and directors of Phoslock Beijing selected by the Board. None of those employees and directors is a Related Party of Phoslock.

Resolution 3 seeks Shareholder approval to the issue of those Performance Options under Listing Rule 7.1.



## **2. Listing Rule 7.1**

As mentioned above in relation to Resolution 1, Listing Rule 7.1 limits the number of equity securities that a listed company may issue or agree to issue without shareholder approval in any 12 month period to 15% of its issued ordinary shares.

The Listing Rules permit a listed company to agree to issue equity securities in excess of that 15% annual limit, provided the issue of those equity securities is subject to shareholder approval.

If Shareholders approve the issue of up to 20 million Performance Options to employees and directors of Phoslock Beijing under Listing Rule 7.1, the Company will issue those Performance Options, and they will not be deducted in calculating the 15% annual limit set out in Listing Rule 7.1..

## **3. Information required for Shareholder approval under Listing Rules**

The following information is required by the Listing Rules:

1. The Company will issue up to 20 million Performance Options to employees and directors of Phoslock Beijing exercisable (subject to the same vesting conditions in item 2 above) at an exercise price of 10.5 cents per Performance Option on or before 5.00 pm on 20 December 2019 and otherwise on the same terms and conditions as apply to the Performance Options under Resolution 2.
2. The proposal to issue the Performance Options is subject to the approval of Shareholders.
3. The Performance Options will be issued as soon as reasonably practicable after the date of the Meeting, but in any event within 3 months after the date of the Meeting.
4. A Performance Option is only exercisable if the applicable Performance Optionholder is an employee of, or consultant to, the Company or a subsidiary at the time the Performance Option vests.
5. The Performance Options, the subject of Resolution 3, will be issued for nil consideration. No funds will be raised from the issue. The Company will raise a total of \$2,100,000 if all the Performance Options are issued and exercised during the exercise period. It is anticipated that any funds raised from the exercise of the Performance Options will be used for working capital purposes of the Company. There is no guarantee that the Performance Options will be exercised in part or at all.

## **4. Board Recommendation**

The Board unanimously recommends that Shareholders vote in favour of Resolution 3.

## **Item 4: Approval of issue of Performance Options to Mr Robert Schuitema (Resolution 4)**

### **1. Background**

In order to continue to optimally align the Managing Director's (Mr Robert Schuitema) performance based remuneration with the interests of Shareholders generally, the Company proposes to issue up to 3 million Performance Options to Mr Schuitema.

The issue of Performance Options as part of the remuneration packages of executive directors is a well-established practice of many publicly listed entities and has the benefit of conserving cash whilst properly rewarding and incentivising the executive director concerned.

### **2. Listing Rule 10.11**

Listing Rule 10.11 provides that, unless one of the exceptions in Listing Rule 10.12 applies, a listed company must not, without the approval of shareholders, issue or agree to issue equity securities to a Related Party.

As a Director, Mr Schuitema is a Related Party. Approval of the proposed issue of Performance Options is therefore required under Listing Rule 10.11.

In accordance with Listing Rule 7.2 (Exception 14), if approval is given under Listing Rule 10.11, approval is not required under Listing Rule 7.1 (described above in relation to Resolution 1).

### **3. Chapter 2E of the Corporations Act**

Section 208 of the Corporations Act provides that a public company must not give a financial benefit to a related party of the public company, unless the company obtains shareholder approval or an exception applies.

Section 211 of the Corporations Act provides that member approval is not required under section 208 to give a financial benefit if the benefit is remuneration to a related party as an officer or employee of the public company, and to give the remuneration would be reasonable given the circumstances of the public company or entity giving the remuneration and the related party's circumstances (including the responsibilities involved in the office or employment).

The proposed issue of Performance Options to Mr Schuitema is:

- being given as part of Mr Schuitema's remuneration package as managing director of the Company; and
- in the opinion of the Board, reasonable in the circumstances given the responsibilities and recent performance of Mr Schuitema and the exercise price of the Performance Options.

The proposed issue of up to 3 million Performance Options to Mr Schuitema therefore falls within the exception set out in section 211 of the Corporations Act and Shareholder approval for the proposed issue of the Performance Options will only be sought under Listing Rule 10.11 (and not Chapter 2E of the Corporations Act).

If Shareholders do not approve the issue of the Performance Options, those Performance Options will not be issued to Mr Schuitema and the Company will have to consider other ways to reward and incentivise Mr Schuitema.

### **4. Information required for Shareholder approval under the Listing Rules**

The following information is required by the Listing Rules:

1. Mr Schuitema is a Related Party of the Company by virtue of being a Director of the Company.
2. The Company will issue up to 3 million Performance Options to Mr Schuitema exercisable (subject to a vesting condition outlined below) at an exercise price 10.5 cents per Performance Option on or before 5.00 pm on 20 December 2019 and otherwise on the same terms and conditions as apply to the Performance Options under Resolution 2, except that the vesting condition will be that the Performance Options vest if the Company and its subsidiaries record commercial sales of not less than \$25 million or earn net profit before tax of not less than \$4 million in aggregate for the period 10 April 2016 to 30 June 2019. Further, a Performance Option is only exercisable if Mr Schuitema is an employee of, or consultant to, the Company at the time the Performance Option vests.
3. The Performance Options may vest early if the applicable vesting conditions set out in paragraph 2 above are met earlier than 30 June 2019.
4. The Performance Options will be issued as soon as reasonably practicable after the date of the Meeting, but in any event within 1 month after the date of the Meeting.
5. The Performance Options, the subject of Resolution 4, will be issued for nil consideration. No funds will be raised from the issue. The Company will raise a total of \$315,000 if all the Performance Options are issued and exercised during the exercise period. It is anticipated that any funds raised from the exercise of the Performance Options will be used for working capital purposes of the Company. There is no guarantee that the Performance Options will be exercised in part or at all.

## **5. Board Recommendation**

The Board (with Mr Schuitema abstaining) unanimously recommends that Shareholders vote in favour of Resolution 4.

### **Item 5: Approval of issue of Performance Options to Phoslock employees and consultants (Resolution 5)**

#### **1. Background**

In order to continue to or better align the interests of certain employees of, and consultants to, the Company and its subsidiaries with those of Shareholders generally and also incentivise and retain valuable employees of, and consultants to, the Company and its subsidiaries, the Company proposes to issue up to 11 million Performance Options to such employees and consultants.

None of the employees and consultants to whom Performance Options may be issued under Resolution 5 is a Related Party of the Company.

#### **2. Listing Rule 7.1**

An explanation of Listing Rule 7.1 is set out above in relation to Resolutions 1 and 2.

Resolution 5 seeks Shareholder approval of the issue of up to 11 million Performance Options for the purposes of Listing Rule 7.1. If Shareholders approve the proposed issue, those Performance Options will not be deducted in calculating the 15% annual limit set out in Listing Rule 7.1. However, if Shareholders do not approve the proposed issue, the Directors reserve the right to nevertheless issue those Performance Options to the employees and consultants concerned without the approval of Shareholders within the 15% annual limit set out in Listing Rule 7.1.

#### **3. Information required for Shareholder approval under Listing Rules**

The following information is required by the Listing Rules:

- The Company will issue up to 11 million Performance Options to consultants to, or employees of, the Company or its subsidiaries, as selected by the Board, exercisable (subject to the same vesting condition outlined in relation to Resolution 4) at an exercise price of 10.5 cents per Performance Option on or before 5.00 pm 20 December 2019 and otherwise on the same terms as the Performance Options under Resolution 4. Further, a Performance Option is only exercisable if the applicable Performance Optionholder is an employee of, or consultant to, the Company or a subsidiary at the time the Performance Option vests.
- The Performance Options may vest early if the applicable vesting conditions set out in relation to Resolution 4 are met earlier than 30 June 2019.
- The Performance Options will be issued as soon as reasonably practicable after the date of the Meeting, but in any event within 3 months after the date of the Meeting.
- The Performance Options, the subject of Resolution 5, will be issued for nil consideration. No funds will be raised from the issue. The Company will raise a total of \$1,155,000 if all the Performance Options are issued and exercised during the exercise period. Any funds raised on exercise of the Performance Options will be used for Phoslock's working capital. There is no guarantee that the Performance Options will be exercised in part or at all.

#### **4. Board Recommendation**

The Board unanimously recommends that Shareholders vote in favour of Resolution 5.

## **Item 6: Approval of issue of Performance Options to a Related Party consultant (Resolution 6)**

### **1. Background**

As mentioned above in relation to Resolution 5, Phoslock wishes to continue to or better align the interests of employees of, and consultants to, the Company and its subsidiaries with those of Shareholders generally. One of those consultants, Serenety Holdings Pty Ltd (**Serenety**), is controlled by a family member related to the Chair of Phoslock and is accordingly a Related Party. The proposed issue of 1,000,000 Performance Options to a Related Party requires the approval of Shareholders under Listing Rule 10.11, unless a relevant exception applies.

### **2. Listing Rule 10.11**

As mentioned above in relation to Resolution 4, Listing Rule 10.11 provides that, unless one of the exceptions in Listing Rule 10.12 applies, a listed company must not, without the approval of shareholders, issue or agree to issue equity securities to a Related Party.

As a company controlled by a family member of the Chair of the Company, Serenety is a Related Party. Neither Serenety nor its controlling shareholder is a member of the KMP.

In accordance with Listing Rule 7.2 (Exception 14), if approval is given under Listing Rule 10.11, approval is not required under Listing Rule 7.1 (described above).

### **3. Chapter 2E of the Corporations Act**

As mentioned above in relation to Resolution 4, Section 208 of the Corporations Act provides that a public company must not give a financial benefit to a related party of the public company, unless the company obtains shareholder approval or an exception applies.

The Board is of the view that the proposed issue of up to 1,000,000 Performance Options to Serenety falls under one of the exceptions to the provisions in Chapter 2E of the Corporations Act (being the exception contained in section 210 of the Corporations Act which provides that shareholder approval is not required if the financial benefit is on terms that would be reasonable in the circumstances if the public company and the related party were dealing at arm's-length or are less favourable to the related party than those terms). Shareholder approval for the proposed issue of the Performance Options will only be sought under Listing Rule 10.11 (and not Chapter 2E of the Corporations Act).

If Shareholders do not approve the issue of the Performance Options, those Performance Options will not be issued to Serenety and the Company will have to consider other ways to reward and incentivise Serenety.

### **4. Information required for Shareholder approval under Listing Rules**

The following information is required by the Listing Rules:

- Serenety is a Related Party of the Company by virtue of being controlled by a family member of the Chair of the Company.
- The Company will issue up to 1,000,000 Performance Options to Serenety exercisable (subject to the same vesting condition outlined in relation to Resolution 4) at an exercise price of 10.5 cents per Performance Option on or before 5.00 pm on 20 December 2019 and otherwise on the same terms as the Performance Options under Resolution 5. Further, a Performance Option is only exercisable if Serenety is a consultant to the Company or its subsidiaries at the time the Performance Option vests.
- The Performance Options may vest early if the applicable vesting conditions set out in relation to Resolution 4 are met earlier than 30 June 2019.
- The Performance Options will be issued as soon as reasonably practicable after the date of the Meeting but in any event within 1 month after the date of the Meeting.

- The Performance Options will be issued for nil consideration. No funds will be raised from the issue. The Company will raise a total of \$105,000 if all the Performance Options are issued and exercised during the exercise period. Any funds raised on exercise of the Performance Options will be used for the working capital purposes of the Company. There is no guarantee that the Performance Options will be exercised in part or at all.

## **5. Board Recommendation**

The Board (with Mr Laurence Freedman AM abstaining) recommend that Shareholders vote in favour of Resolution 6.

## Definitions

Unless the context requires otherwise, the following words shall have the following meanings in this Explanatory Memorandum, the Notice of Meeting and the Proxy Form:

- (1) **\$** refers to Australian dollars.
- (2) **ASX** means ASX Limited ACN 008 624 691 or, as the context requires, the market operated by it.
- (3) **Board** means the board of Directors of the Company.
- (4) **CEC** means China Environmental Corporation (Australia) Pty Ltd ACN 618 552 275.
- (5) **Closely Related Party** has the meaning given in section 9 of the Corporations Act and includes a spouse, dependent and certain other close family members of the KMP, as well as companies controlled by a KMP.
- (6) **Company** or **Phoslock** means Phoslock Water Solutions Limited ACN 099 555 290.
- (7) **Corporations Act** means the *Corporations Act 2001* (Cth).
- (8) **Directors** mean the directors of the Company from time to time.
- (9) **Explanatory Memorandum** means this Explanatory Memorandum.
- (10) **Key Management Personnel** or **KMP** means persons having authority and responsibility for planning, directing and controlling the activities of the Company and its controlled entities, directly or indirectly, including any Director (whether executive or otherwise).
- (11) **Listing Rules** means the listing rules of ASX (as amended or waived).
- (12) **Meeting** means the Meeting of the Company convened by the Notice of Meeting.
- (13) **Notice of Meeting** means the Notice of Meeting accompanying this Explanatory Memorandum.
- (14) **Performance Option** means an option to acquire a Share in the Company.
- (15) **Phoslock Beijing** means Phoslock (Beijing) Environment Engineering Technology Co., Ltd, a wholly-owned subsidiary of the Company.
- (16) **Phoslock Shanghai** means Phoslock (Shanghai) Water Solutions Co., Ltd, a wholly-owned subsidiary of the Company.
- (17) **Proxy Form** means the proxy form accompanying this Explanatory Memorandum.
- (18) **Related Party** has the meaning given in the Listing Rules.
- (19) **Resolution** means a resolution set out in the Notice of Meeting.
- (20) **Shareholder** means a person or entity entered in the Company's register of members from time to time as the holder of Shares.
- (21) **Shares** means fully paid ordinary shares in the capital of the Company quoted on the ASX under the code "PHK".
- (22) **VWAP** means, in relation to Shares, the volume weighted average market price for a particular period.

All references to time in the Notice of Meeting are to Sydney time.

# Shareholder Proxy Form

Phoslock Water Solutions Limited.

Please post or deliver all Proxies to Suite 403, 25 Lime Street, Sydney, NSW 2000, or send to facsimile (02) 8014 7625.

I/We .....

of .....

appoint .....

or in his/her absence.....

of .....

or, if no person is named above or is absent, the Chair of the Meeting, as my/our proxy to vote for me/us on my/our behalf at the Meeting of the Company to be held at 9.00 am (Sydney time) on Friday, 16 June 2017 and at any adjournment of that meeting.

**Important Notes:** If you appoint a proxy, we encourage you to direct your proxy how to vote on each item of business.

The Chair of the Meeting intends to vote all undirected proxies in favour of each Resolution.

In relation to Resolutions 4 and 5, if the Chair of the Meeting is your proxy or is appointed your proxy by default, unless you indicate otherwise by ticking either the 'FOR', 'AGAINST' or 'ABSTAIN' box in relation to that Resolution, you will have expressly authorised the Chair to exercise your proxy in respect of that Resolution even if that Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel of the Company.

Other than in the circumstance contemplated above in respect of the Chair, Directors, other Key Management Personnel of the Company and their Closely Related Parties (see Notice of Meeting and overleaf) are not permitted to cast any votes in respect of Resolutions 4 and 5 that arise from any undirected proxy that they hold. If the Directors or another Key Management Personnel (other than the Chair of the Meeting) is your proxy, and you fail to provide a voting direction in respect of Resolutions 4 and 5, your vote will not be cast.

If appointing a second proxy please state the number of Shares or the percentage of voting rights applicable to this Proxy Form.

Number of Shares OR  %

I/We direct my/our proxy to vote in respect of the Resolutions to be considered as indicated with an "X" below, and to vote or abstain in respect of any procedural resolution as my/our proxy thinks fit.

	FOR	AGAINST	ABSTAIN*
Resolution 1: Ratification of prior issue of Shares to CEC	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2: Approval of issue of Performance Options to CEC	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3: Approval of issue of Performance Options to Phoslock Beijing executives	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4: Approval of issue of Performance Options to Mr R Schuitema	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5: Approval of issue of Performance Options to Phoslock employees and consultants	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6: Approval of issue of Performance Options to a Related Party consultant	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If no direction is given above, I/we authorise my/our proxy to vote or abstain as my/our proxy thinks fit in respect of each Resolution to be considered by the Meeting and any adjournment of the Meeting (subject to the restrictions set out in "Important Notes" above or otherwise imposed by law).

\*If you mark the Abstain box for a particular Resolution, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

Individual or Shareholder 1

Individual/Sole Director or Sole Company Secretary

Shareholder 2

Director

Shareholder 3

Director/Company Secretary

Date: .....

This Proxy Form should be signed by the Shareholder. If a joint holding, all Shareholders must sign. If signed by the Shareholder's attorney, the power of attorney must have been previously lodged with the Company or a certified copy attached to this Proxy Form. If executed by a company, the form must be executed in accordance with the company's Constitution and the Corporations Act..

# Instructions for completing this Proxy Form

## Appointment of proxy

Insert the name of your proxy, if your proxy is someone other than the Chair of the Meeting. If you leave the appointment section of this Proxy Form blank or your named proxy is unable to attend, the Chair of the Meeting for the time being will be your proxy to vote your Shares. Your proxy need not be a Shareholder of the Company.

You may appoint one or 2 proxies to attend and vote at the Meeting on your behalf. If you appoint 2 proxies, the appointment may specify the proportion or number of votes that each proxy may exercise. If the appointment does not specify a proportion or number, each proxy may exercise one-half of the votes in which case any fraction of votes will be disregarded. Where a Shareholder appoints more than one proxy, neither proxy is entitled to vote on a show of hands. If you require an additional Proxy Form, the Company will supply it on request.

## Voting directions to your proxy

You should direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your Shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of Shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy (subject to any voting exclusion) may vote as he or she chooses. If you mark more than one box on an item, your vote on that item will be invalid.

The Chair of the Meeting intends to vote all undirected proxies in favour of each Resolution. In relation to each of Resolutions 4 and 5, if the Chair of the Meeting is your proxy or is appointed your proxy by default, unless you indicate otherwise by ticking either the 'FOR', 'AGAINST' or 'ABSTAIN' box in relation to that Resolution, you will have expressly authorised the Chair to exercise your proxy in respect of that Resolution even if that Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel of the Company.

Other than in the circumstance contemplated above, Directors, other Key Management Personnel of the Company and their Closely Related Parties (see Notice of Meeting) are not permitted to cast any votes in respect of Resolutions 4 and 5 that arise from any undirected proxy that they hold. If the Directors or another Key Management Personnel (other than the Chair of the Meeting) is your proxy, and you fail to provide a voting direction in respect of Resolutions 4 and 5, your vote will not be cast.

## Signature(s)

You must sign this form in the spaces provided as follows:

- **Individual Holding:** The Shareholder must sign in the box.
- **Joint Holding:** If Shares are held in joint names, all Shareholders must sign in the boxes.
- **Attorney:** If you are signing as an Attorney, the Power of Attorney must have already been lodged with the Company or, alternatively, a certified copy of it must accompany this Proxy Form.
- **Companies:** Only duly authorised officer(s) can sign on behalf of a company. Please sign in the boxes provided which state the office held by the signatory, i.e. Director and Director, or Company Secretary and Director, or Sole Director and Sole Company Secretary.

## Lodgement of Proxy

The Proxy Form and the power of attorney or other authority (if any) under which it is signed (or a certified copy) must be received by the Company at least 24 hours before the time for holding the Meeting that is, by 9.00 am on Thursday, 15 June 2017. Proxy Forms and accompanying documents may be sent to the Company by posting or delivering them to the address on this form or sending them by facsimile to the facsimile number on this form.