

风斯乐水治理有限公司



2017 | **PHOSLOCK**
Annual Report

Innovative water technologies for clean & healthy water

Directory

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Laurence Freedman AM

Chairman

Robert Schuitema

Managing Director

Zhigang Zhang (张志刚)

Non Executive Director

Brenda Shanahan

Non Executive Director

The Hon. Pam Allan

Non Executive Director

Senior Management

Robert Schuitema

Managing Director & Company Secretary

Andrew Winks

General Manager – Operations

Nigel Traill

General Manager – Europe, North & South America

Ting Shan Liu (刘廷善)

General Manager – Phoslock Beijing

Zhao Peng (Jason) Hai (海兆鹏)

Manager – Changxing Factory

Yan Fai (Chris) Hui

Group Accountant

Auditors

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Chairman's Report

Dear Shareholders,

I am delighted to report to you on the significant changes over the last 12 months, which have transformed the Phoslock Limited business.

The catalyst to the transformation has been the strategic agreement with BHZQ Environmental and the setting up of the Phoslock Beijing office with an experienced executive team of water industry professionals. Phoslock Beijing is already broadening our business base, which now includes design, engineering, implementation and contract management of water related projects.

Mr Zhigang Zhang, General Manager of BHZQ Environmental has joined the PWS Board and has already made a significant contribution to development of the China business.

We have recently completed a large manufacturing facility in Changxing, China, 150 kilometres inland from Shanghai. This facility is wholly owned and will massively increase production of our core product, Phoslock, along with our growing suite of water treatment materials. Significant economies of scale provide us with a substantial cost saving.

The Company's business mix is

changing. From only selling Phoslock internationally in 2016-17, we are progressing to an estimated mix of 30% international materials, 40% China contracting business and 30% China materials for the current financial year. Revenue for this financial year is currently forecast to increase by over 420% to \$22 million.

These dramatic changes have resulted in major additions to the management team; we currently have over 50 employees in China, a number of whom are highly qualified and experienced engineers, project managers, researchers and support staff.

Outside of China, business is progressing well; sales for the previous financial year were \$4 million. We are now forecasting a 60% increase to \$6.4 million for the current financial year.

I am also pleased to inform you that in addition to Mr. Zhigang Zhang, we have made a further significant change to strengthen the Company's Board. Ms Brenda Shanahan, a highly experienced finance executive, joined us in September. She has many years' experience in international corporate matters and finance.

The Hon. Pam Allan will retire at the November AGM after ten years

of service to the Company. I would like to thank Pam personally for her contributions to the Board.

On a further positive note, I am pleased to highlight to you that the share price over the past 12 months has risen from around 6c per share to today's value of around 20c per share. The market capitalisation of the Company has therefore risen from some \$20m to \$85m over the past 12 months. The share price, after all, is the best sign of a successful enterprise

I am very excited about the future of Phoslock Limited. The Company has now firmly established a significant business base in China and is working with outstanding partners. I look forward to continuing our regular updates and expect to provide you, our loyal shareholders, with more positive news as the year progresses.

Finally, I would like to thank our employees and the executive officers for their significant contribution to the company once again, and in particular, our Managing Director, Robert Schuitema.

Yours sincerely,

Laurence Freedman AM

Chairman

25th September 2017



▶ **MR LAURENCE FREEDMAN AM** (CHAIRMAN - PHOSLOCK WATER SOLUTIONS LIMITED), **THE HON. SCOTT FARLOW, MLC** REPRESENTING THE NSW PREMIER, THE HON. GLADYS BEREJIKLIAN, AND **MR ZHIGANG ZHANG** (GENERAL MANAGER - BHZQ)

▶ **MR LAURENCE FREEDMAN AM** (主席 - 风斯乐水治理有限公司), **THE HON. SCOTT FARLOW, MLC** 代表新南威尔士总理, **THE HON. GLADYS BEREJIKLIAN**, **张志刚先生** (总经理 - 北华中清环境)

主席报告书

各位股东,

我很高兴向各位汇报过去十二个月来所发生的重大转变,这些变化改变了风斯乐水治理有限公司的业务。

转变的催化剂是与北华中清环境签订的战略协议和与一班经验丰富的水行业专家执行团队成立了风斯乐北京办事处。风斯乐北京已经扩大了我们的业务基础,现在我们的业务包括与水治理相关的项目设计、工程、实施和合同管理。

北华中清环境总经理张志刚先生已加入我们风斯乐的董事会,对风斯乐中国企业的发展作出了重大的贡献。

我们最近在中国浙江省长兴县,距离上海内陆一百五十公里,设立了一家全资拥有的大型生产厂房,它将大量增加我们的核心产品、锁磷剂的生产,以及我们不断增长的水治理材料。生产设施对我们提供了可观的规模效益。

本公司的业务组合正在改变,从二零一六/一七财政年度的锁磷剂国际销售,到本财政年度为百分之三十国际材料销售,百分之四十中国工程及水处理和百分之三十中国材料销售。预计二零一七/一八财政年度的收入将增加百分之四百二十至二千二百万澳元。

这些戏剧性的变化导致了管理团队的大量增加;我们目前在中国有超过五十名员工,其中一些是高素质和经验丰富的工程师、项目经理、研究员和后勤人员。

在中国以外,业务进展顺利;前财政年度的销售额为四百万澳元。我们预计二零一七/一八财政年度有百分之六十的增幅,至六百四十万澳元。

我也很高兴地告诉你,除了张志刚先生加入了我们公司的董事会,我们做了重大的改变,以加强我们公司的董事会。在本年九月,一位经验丰富的财务主管、Brenda Shanahan小姐也加入了我们公司的董事会。为公司服务了十年的

Hon.Pam Allan将在十一月的年度股东大会上退休。我在此想亲自多谢Pam过去对董事会的贡献。

另一项需要一提的,我很高兴、你或许已注意到、在过去十二个月的股价已从每股六仙左右,市值为二千万澳元,至今日约每股二十仙市值八千五百万澳元。毕竟,这是成功企业的最佳标志。

我对风斯乐水治理有限公司的未来感到非常兴奋。公司现已稳固地在中国建立了重要的业务基础,并与优秀的合作伙伴共同努力。我期待着为您、我们忠实的股东、在随着的一年继续在我们定期的更新裡发布更多正面的消息。

最后,我要感谢我们的员工和执行团队今年对公司的重大贡献,尤其是我们的董事总经理Robert Schuitema.

Laurence Freedman AM

主席

二零一七年九月二十五日

Managing Director's Report

FY2016-17 saw a 92% increase in revenues from \$2.2m to \$4.2m. Nearly 95% of this revenue came from our International Materials business, excluding China.

The major achievements of FY2016-17 are not recorded in the Financial Statement, but in the establishment of the new business structure in China and the completion of the manufacturing facility in Changxing. The financial benefits of these will be realised in FY2017-18 and beyond.

In May 2017, PWS signed a strategic agreement with BHZQ Environmental to help PWS develop its water environmental business in China. This assisted the setting up of Phoslock Beijing and the recruitment of a team of water industry professionals with a broad range of water industry professional skills. Phoslock Beijing's business base includes design, engineering, project implementation and execution and management of water-related projects, all of which have close synergies to PWS's existing materials business. Phoslock Beijing already has a team of 17 professionals and is forecast to increase this to 25 by the middle of 2018. The team is working on several projects in the greater Beijing area and already has a current pipeline of five near and medium term projects valued at over A\$30 million.

In late 2016, PWS signed a five year lease on a 6,000 square metre two-story factory in the Changxing Economic Zone. Changxing is 150km west of Shanghai and equidistant to two important export ports.

Changxing is part of the Eastern China industrial heartland and an ideal place for a manufacturing facility. The procurement and fit out of the Phoslock manufacturing facility was finished in July 2017 and following a commissioning period, commenced production in August 2017. The Changxing facility provides PWS with enormous flexibility in manufacturing Phoslock and mixing and producing other water treatment materials. PWS has established a large laboratory and testing facility at the Changxing factory to ensure quality control of our products and to develop new water treatment products particularly for the Chinese market. A detailed profile on the Changxing Manufacturing Facility is included on pages 10-13.

The PWS Group now has three business segments;

1. International Materials (excluding China);
2. China Contracting; and
3. China Materials

On 6 September, 2017 PWS advised shareholders that forecast FY2017-18 sales would be \$22 million with 30% from International Materials; 40% from China Contracting; and 30% from China Materials. This is a 420% increase over FY2016-17 sales. This is also a significant diversification from our traditional business mix and one which we believe will deliver major increases in sales and earnings going forward.

Other than China, the largest market for International Materials is Brazil. Our licensee in Brazil, HidroScience, is currently working on three projects

including our largest to date, the lake Pampulha Restoration project. This project, which has a value to PWS of approximately \$4 million is currently 70% complete and will be finalised over the next six months. Further regular maintenance applications are likely to be required. Phoslock is also being used on several drinking water reservoirs in Brazil, with new projects expected to come online each year.

The challenge for a rapidly growing company like PWS, is to ensure it has sufficient working capital to fund the expanded business base. With the transformational Chinese developments, the Directors recently approve a Share Placement to institutional and large investors and a Share Purchase Plan to all existing PWS shareholders to raise in the order of \$6-7 million. These funds will help accelerate the growth of the PWS businesses.

The PWS management team has increased significantly during the year. I would like to welcome Mr Ting Shan Liu (刘廷善) as General Manager of Phoslock Beijing. Mr Liu already has a team of 17 in the Beijing office focusing on design, engineering, contract implementation, execution and management of water related projects. He brings a wealth of experience in the water contracting business. I would also like to welcome Zhao Peng (Jason) Hai (海兆鹏) as the Manager of the Changxing Factory and Yan Fai (Chris) Hui (许仁辉), as Group Accountant based in Sydney with responsibility for the financial oversight of our Chinese subsidiaries.

PWS continues to work with its Patent

Attorney on the granting of the March 2013 patent application in over 50 countries. The process is well advanced in a number of countries. The original CSIRO patent took between 4 to 7 years from the date of registration to be granted; hence the current process is consistent with this timing. As the 20 year patent period starts on the date of registration, when granted, the new patent will be in place until March 2033.

I would also like to thank Nigel Trill, Regional Manager – Europe, North & South America and Andrew Winks, General Manager – Operations, not only for their enormous contributions this year but for nearly 15 plus years' service to the PWS Group.

During the year the number of PWS shareholders increased from 1,300 to approx. 1,600. With a four fold forecast sales, profitability and significantly improved balance sheet and market capitalisation approaching \$100m, PWS becomes a more attractive investment option for a larger number of investors. The company is increasing its Investor Relations activities aimed at getting PWS in front of more investors and stockbrokers, not only in Australia & New Zealand but in key Asian markets of Singapore, Hong Kong & China. After the recently completed Share Placement, some 15% of PWS stock is held by Singaporean, Hong Kong & Chinese investors. Shareholders will notice that a number of our announcements are now duplicated in Chinese.

The Board and senior management are very excited about the outlook for PWS in FY2017-18 and beyond. PWS now has three meaningful businesses segments, each with strong growth prospects. I look forward to keep you all advised of major developments in our business.

Robert Schuitema
 Managing Director
 25h September, 2017



PACKING OF PHOSLOCK INTO 25KG BAGS AT THE CHANGXING MANUFACTURING FACILITY ▾



APPLICATION OF PHOSLOCK TO LAKE PAMPULHA, BRAZIL ▾



PHOSLOCK BEIJING TEAM AND PWS VISITORS – SEPTEMBER, 2017 ▾

Front: **Tingliang Liu, Doudou Yang, Yinxue (Catherine) Wang** (Phoslock Beijing Accountant), **Lili Song, Tingshan Liu** (Phoslock Beijing General Manager), **Changqing (Jack) Jia**;
 Back: **Zhongming (Dennis) Hong, Fei Qin, Yuzhong Yang, Robert Schuitema** (PWS Managing Director), **Chris Hui** (PWS Group Accountant), **Zhaopeng (Jason) Hai** (Phoslock Changxing Manager), **Zhi (Will) Li**.

董事总经理报告书

二零一六/一七财政年度的收入从去年的二百二十万澳元到今年的四百二十万澳元,增长达百分之九十二。接近百分之九十五的收入来自我们的国际材料业务销售(不包括中国)。

二零一六/一七财政年度公司的主要成就没有表现在财务报表中,而是在中国建立了新的业务结构和完成长兴厂房的生产设施。这些经济效益将在2017/18财政年度和以后充分反映。

在今年五月,风斯乐与北京北华中清环境签署了一项战略性协议,帮助风斯乐在中国发展水环境业务,这推动了风斯乐北京的成立,并吸引了一批水行业的专业人才,他们均具有广泛的水行业专业技能。风斯乐北京的商业基础包括设计,工程,项目实施和水相关项目的执行和管理。这项业务与风斯乐现有的材料业务紧密联系在一起。风斯乐北京已经拥有一支由十七名专业人员组成的团队,预计到二零一八年中旬将增加至二十五人。风斯乐北京已经在北京地区进行了几个项目,目前已有五个在近和中期的项目价值超过三千万澳元。

在二零一六年年底,风斯乐在中国长兴经济开发区签订了一份为期五年,面积达六千平方米的二层厂房的租约。长兴距上海西面约一百五十公里,距离中国两个重要的出口港口相距也相近。长兴是华东工业中心地区的一部分,是设定生产厂房的理想地点。风斯乐生

产设施的采购和配备在二零一七年七月完成,在二零一七年八月正式投产。在投产后,长兴制造厂将为风斯乐提供巨大的灵活性,在制造锁磷剂和混合和生产其他水处理材料。风斯乐在长兴厂房建立了大型的实验室和检测设施,以确保产品的质量控制,并为中国市场开发新的水处理产品。我们已在14-17页中的长兴制造厂房專頁提供更详细的资料。

风斯乐集团现有三个业务单位:

1. 国际材料(不包括中国)
2. 中国工程及水处理
3. 中国材料

在二零一七年九月六日风斯乐向股东公告其对二零一七/一八财政年度销售预测为二千二百万澳元,百分之三十为国际材料销售,百分之四十为中国工程及水处理和百分之三十为中国材料销售。相比二零一六/一七财政年度销售额增加了四点二倍。这是一个对我们传统业务组合的重大变化和多元化的改变,我们相信这将替我们在当前财政年度和未来提供可观的销售收入和盈利。

除了中国,最大的国际材料市场为巴西。我们在巴西的代理人,HidroScience目前正在三个项目,包括我们最大的Pampulha湖修复项目。该项目约为四百万澳元,目前已完成百分之七十,最终产品将在未来

六个月内应用。将来这项目很大可能需要进一步的定期维护应用。巴西的几个处理饮用水的部门也在使用锁磷剂,他们每年都增加应用在新的水库。

像风斯乐这样迅速成长的公司面临的挑战是确保它有足够的流动资金为扩大的业务基础提供资援,特别是在中国。最近,董事局批准了对机构和大型投资者的股份配售,并向所有现有的风斯乐股东提出了股份购买计划,以募集六至七百万澳元的融资。这些资金将有助于加快风斯乐企业的发展。

风斯乐管理团队在这一年中明显增加。我欢迎刘廷善先生担任风斯乐北京的总经理。刘先生已经在北京办事处带领一队十七人的团队,专注于项目设计、工程、合同的执行和执行以及与水相关项目的管理。他为公司在水承包行业带来了丰富的经验。我还要欢迎海兆鹏先生担任我们长兴厂房的经理,和许仁辉先生作为我们总部设在悉尼的集团会计师,包括负责对我们中国子公司的财务监督。

风斯乐继续与其专利代理人合作,对其二零一三年三月在五十多个国家申请专利的审批跟进。这一进程在一些国家非常先进。最初的CSIRO专利从注册之日起在四至七年之间完成审批,目前程序与这个时间相一致。由于二十年的专利期始于注册之日,一旦获得批



风斯乐在长兴制造厂包装二十五公斤袋锁磷剂

准, 新专利将于二零三三年三月期满。

我要感谢Nigel Traill, 欧洲, 北美和南美区的区域经理和Andrew Winks业务总经理 -- 他们的巨大贡献, 不仅在今天, 和他们近15年对风斯乐集团的服务。

在过去一年, 风斯乐股东的人数从一千三百人增加到大约一千六百人。随着增长四倍的销售预测, 盈利能力和大幅改善资产负债表和接近1亿澳元市值, 这将使风斯乐对投资者更具吸引力。该公司正增加其对投资者关系的活动, 目的是吸引更多的投资者和股票经纪对风斯乐感兴趣, 不仅是澳大利亚和新西兰的投资者, 更是在新加坡, 香港和中国的主要亚洲市场。在最近完成的股份配售后, 约百分之十五的风斯乐股票是由新加坡, 香港和中国投资者持有。为了协助这一过程, 股东会注意到, 我们许多公告现在都备有中文版本。

董事会和高级管理层对风斯乐2017/18财政年度和前景非常兴奋。风斯乐现有三个有意义的业务单位, 每一个都有强劲的增长前景。我期待着对风斯乐股东发出更多有关风斯乐业务重大发展的公告。

Robert Schuitema

董事总经理

二零一七年九月二十五日



锁磷剂在巴西PAMPULHA湖的应用



风斯乐北京和悉尼团队 - 二零一七年九月
(从左到右)前排: 刘廷良, 杨逗逗, 王吟雪, 宋丽丽, 刘廷善, 贾长清
后排: 洪中铭, 秦非, 杨玉忠, ROBERT SCHUIITEMA, 许仁辉, 海兆鹏, 力志



Phoslock Changxing Manufacturing Facility

During 2017, Phoslock Water Solutions Limited (PWS) established a multi-purpose manufacturing facility in the city of Changxing, Zhejiang province, China. It is located approximately 150km from the global financial centre of Shanghai.

The Changxing manufacturing facility covers 2 levels. The ground floor houses manufacturing equipment and is spread over approximately 4,000m². An 8m high ceiling enables the manufacturing of bulk materials.

The first floor contains approximately 2,000m² of storage area for raw materials and also is used for storage of the finished inventory.

Changxing is in the centre of the important economic zone of Shanghai - Nanjing - Hangzhou and is about 150kms from two important export ports. It is also situated on the high speed train network; allowing a trip from Beijing to Changxing in only 5hrs which avoids lengthy airport transits.



PHOTO OF THE NEW PHOSLOCK WATER SOLUTIONS LTD FACTORY AT CHANGXING.



LOCATION MAP OF THE CHANGXING AREA.



▼ FIRST STAGE OF PRODUCTION – MIXERS AND FILTER PRESSES LEADING BY CONVEYOR TO THE EXTRUDER AND DRYER.

Changxing is located close to Lake Taihu; China's third largest freshwater lake. This area was traditionally an agriculture and farming, fishery area. In the last 25 years, the "Changxing Economic Development Zone" has been created. To encourage business in the Changxing area, PWS was granted a number of tax and commercial incentives by the local government. The Changxing government greatly assisted in setting

up the manufacturing facility and accessing important utilities.

The new factory has the capacity to meet the rapidly expanding global demand for anti-pollution measures. In particular, PWS products address the Chinese Government's focus of treating waterborne pollution.

Phoslock production will commence at the rate of 7,000 tons per annum

"The Changxing factory allows PWS to manufacture vast volume of product which allows the group to target big projects in China and Internationally."

Robert Schuitema, PWS Managing Director



▼ GAS FIRED DRYER (RIGHT HAND SIDE)



▼ CHANGXING LABATORY - PICTURE LEFT TO RIGHT: MR JASON HAI (CHANGING FACTORY MANAGER), MR PETER CAI (LAB ASSISTANT) AND MR ANDREW WINKS (PWS GENERAL MANAGER – OPERATIONS).



▼ PHOSLOCK BEING LOADED INTO CONTAINER FOR EXPORT.

(tpa). Factory capacity, given the current configuration of equipment, is 15,000tpa. With additional equipment the manufacturing facility can produce an estimated 45,000tpa. The decision to increase the current configuration of 15,000tpa will be driven by forecast production needs. Operating costs are expected to be lower than the current toll treatment plant. Ultimate costs of production will be determined by the product volume. This is the first time

that PWS will have complete control over all aspects of the manufacturing operation.

The facility will also mix and package other products including modified zeolite, which is used to sequester nitrogen. An additional number of new water treatment products are now in development to cope with complex water pollution. These include several forms of bacteria for

COD (Chemical Oxygen Demand) and BOD (Biological Oxygen Demand) that can also be used in Phoslock applications.

The Changxing manufacturing facility has been designed to ensure that it meets China's new EPA regulations including installation of an on-site waste water treatment plant and the use of gas as the main energy source at the facility.



▼ FINAL STAGE OF PRODUCTION – DRYER LEADING TO FINISHED PRODUCT AND BAGGING AREA.



▼ WASTE WATER SYSTEM TO ENSURE ZERO DISCHARGE FROM SITE.

Director's Report

Your directors present their report on the Company and its controlled entities ("the consolidated entity" or "group") for the financial year ended 30th June, 2017.

Directors

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

- **Mr Laurence Freedman AM**
- **Mr Robert Schuitema**
- **The Hon. Pam Allan**
- **Mr Zhigang Zhang**
(appointed 13 June, 2017)

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

Company Secretary

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

Operating & Financial Review Principal Activities

The principal activities of the consolidated entity during the financial year was the sale and marketing of the patented product

"Phoslock" to a range of existing and new customers in over 20 countries. The completion of the Changxing manufacturing facility will allow the company to control the manufacturing of Phoslock and other water treatment products. The formation of Phoslock Beijing in June 2017 will significantly broaden the business base to include design, engineering and project implementation services for lake, river and canal projects.

Operating Results

The consolidated loss of the consolidated entity after providing for income tax and non-controlling interests amounted to (\$1,822,613) (2016: (\$2,313,899)). Revenue increased by 93% to \$4,227,307 (2016; \$2,196,242). Earnings before

Interest, Tax & Depreciation for 2017 was (\$1,542,207) versus (\$1,396,655) for 2016.

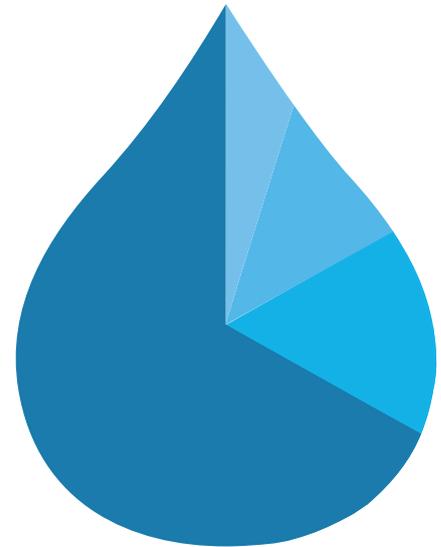
The financial performance of the Group for FY2017 was a significant improvement over FY2016 with revenue 92% higher. Net loss for the year was 21% lower than FY2016. The FY2017 accounts reflect a large investment in the Chinese business which by financial year end had produced the Phoslock Beijing sales, marketing and project implementation team with several projects to commence on. The operating costs relating to the setting up of the Changxing manufacturing facility were expensed in FY2017. Plant and equipment increased by approx. \$1.0million, mainly attributable to the Changxing manufacturing facility. The China business unit recorded

The break-down of the group operating performance

FY2016-17	Revenue	Operating Performance
International Operations	\$4,019,888	\$242,337
China Operations	\$207,419	(1,107,339)
	\$4,227,307	(865,002)
Finance Charges		(225,222)
Depreciation		(56,678)
Corporate Charges		(675,711)
Loss after Tax		(1,822,613)

PWS SALES BY REGION
% Sales for FY2016/17

- US/CANADA & BRAZIL 67% ▾
- EUROPE & UK 16% ▾
- AUSTRALIA 12% ▾
- CHINA 5% ▾



a segment operating loss before corporate changes of (\$1.1 million). The international business (excluding China) recorded sales of \$4.0 million and a segment operating profit of \$242,000 before corporate overhead charges.

Operating expenses excluding option expenses and depreciation and amortisation, and finance cost for the year were \$3,250,069 (2016:\$2,286,985) an increase of \$963,084. The major expense increases were employee expenses, occupancy costs and general administration expenses related to the Shanghai sales & marketing office and setting up of the Changxing manufacturing operation. Total employment costs of PWS senior executives (excluding Chinese executives) plus PWS Board increase by \$79,000 in FY2017.

The net assets of the consolidated entity was \$1,935,669 as of 30 June 2017, a significant improvement on the net assets of \$648,342 as of 30 June 2016. The increase in net assets is mainly as a result of a placement to senior Chinese water industry executives, conversion of \$0.65 million Convertible Notes into PHK shares, and conversion of unlisted Options.

No dividends have been paid or

declared for payment in relation to the financial year ended 30 June 2017 (2016:\$Nil).

Review of Operations

Revenues recorded for the year of \$4,227,307 represented a 92% increase over the prior year. The major sales areas were Brazil, North America, Europe and Australia along with access to Australian Government research and development tax concessions. PWS has been manufacturing in China for a number of years but its sales of Phoslock products has been limited, as it has not found the right sales partner. After significant due diligence, PWS signed a transformational agreement in early May, 2017 with BHZQ Environmental Engineering Technology Company Limited. BHZQ is 70% owned by Beijing Enterprises Water Group (BEWG), a Hong Kong listed company with an A\$9 billion market capitalisation. BEWG is the largest water treatment company in Asia and of the top ten water companies in the world.

Phoslock Beijing Ecological Environmental Technology Company Limited (100% PWS) was formed with the assistance of senior Chinese water executives. Phoslock

Beijing has acquired a team of experienced engineers and project implementation experts that can undertake end-to-end design, engineering, project site works, application and maintenance of water remediation in rivers, canals, wetlands and lakes across China using PWS traditional material (Phoslock) and a range of other remediation products (zeolites, bacteria and other products). Phoslock Beijing office is now fully functional with 15 professional employees. This is a transformation of the Group's current business and allows the Group to undertake a broader array of projects, including services, materials and construction. On 25 July, 2017 the PWS Board advised shareholders that forecast sales for FY 2017-18 were \$18.5 million, up 460% on the previous corresponding period. These forecasts are based on current orders and projects under negotiation or in a very advanced stage. The forecast sales will come from a combination of materials, including traditional Phoslock, zeolites and new bacteria products as well as additional in-house engineering services. PWS's International business (excluding China) recorded sales of \$4.0 million, 100% higher than FY2016-17.



SIGNING CEREMONY OF PHOSLOCK-BHQZ STRATEGIC AGREEMENT AT NSW PARLIAMENT ON 3 MAY 2017

66% of sales came via the Company's Brazilian licensee, HidroScience participated as a member of a consortium to undertake work on the restoration of Pampulha Lake. The Pampulha Lake contract is forecast to be completed by early 2018. Further in lake work may be required to maintain Pampulha Lake's water quality.

16% of sales came from the European/UK region, where 66 lake projects have been completed since early 2007. A number of case studies and video clips can be seen on www.phoslock.com.au. Phoslock Europe is currently preparing for a very busy FY2017-18 with projects in excess of \$1.5 million expected to be completed by April 2018.

Continued progress was made during the year in the development of the Phoslock business in North America, in both Canada and the United States. Sales for FY2016-17 were 10% of total group sales. Our US licensee, SePRO Corporation, has dedicated significant resources to establish Phoslock in this market since taking over the license in 2011. Two projects totalling \$1.0 million are being finalised for application/sale in the first half of FY2017-18, with two large projects (each in the \$2-4 million range) under consideration.

The construction of a wholly owned and operated manufacturing facility in China has been under consideration for some time. With increasing sales over the last 18 months, the criteria set by the PWS Board for a PWS operated plant was met. After an extensive evaluation of industrial parks within 150 kilometre radius of Shanghai, Changxing was selected. The Changxing Economic Development Board has provided a range of rebates and tax incentives covering the first five years of operations. A number of the incentives are linked to sales revenue from the manufacturing facility. The total value of incentives that could be paid to PWS Changxing over the first five years is approx \$1.4 million including \$350,000 in the first year of operation. None of these benefits have been included in the FY2017-18 financial accounts.

The manufacturing facility will have an initial production capacity of 15,000 tons per annum of Phoslock products, and can be expanded to 45,000 tons per annum with the addition of extra equipment. The manufacturing facility is 6,000 square metres and has significant room for the Phoslock operation, manufacturing and blending of other materials and storage areas for raw materials and

inventories. The new factory operates under strict EPA Requirements including no discharge of water and air pollutants. All waste water is treated in-house in a state of the art waste water treatment facility.

Financial Position

The net assets of the consolidated entity was \$1,935,669 as of 30 June 2017, an improvement on \$648,342 as of 30 June 2016. The increase in net assets is mainly as a result of balance sheet restructuring including equity raising, conversion of Convertible Notes into PHK shares and repayment of related party loans. Improved business activities led to increased inventory holdings, receivables and plant & equipment.

Capital Management

During FY2017 the Company undertook a \$2.1 million Share Placements to a group of senior Chinese water industry executives. In addition, the conversion of \$0.65m of Convertible Notes into PHK shares and the exercise of \$0.3 million of unlisted Options resulted in an improvement in the balance sheet. The Company's net assets improved to \$1.9 million as at 30 June, 2017. The Company's Gearing Ratio as at 30 June, 2017 (including trade creditors) was 31% (2016: 27%).



APPLICATION OF PHOSLOCK TO HERITAGE LOCH IN SCOTLAND ▾

Future Developments, Prospects and Business Strategies

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

- (i) Diversifying PWS business base by adding a design, engineering and project implementation team which will not only be a new source of revenue but increase sales of Phoslock and other materials in these projects;
- (ii) Rapid expansion of business in China through the new Phoslock Beijing office;
- (iii) Large one off projects in China, North & Southern America, and Europe;
- (iv) Lower production and distribution costs of Phoslock and other materials through the new Changxing manufacturing operation;
- (v) Evaluation and development of other water treatment products via licensing arrangements or acquisition to add to the group's product range.

Significant Changes in State of Affairs

During FY2017 the Company issued \$3.0m of new equity via

Share Placement, conversion of Convertible Notes and unlisted options. At the end of the financial year, the Group established a sales & marketing and engineering group in Beijing, along with an experienced team of 15 water industry specialists. Phoslock Beijing commenced formal operations on 1 July, 2017. The impact of this division to the Group is expected to be significant. The Company also established a large manufacturing operation in Changxing (150 km inland from Shanghai). The manufacturing operation is expected to significantly increase production and lower production costs over time.

Events after the Reporting Period

No significant events have occurred after the Reporting Period.

Environmental Issues

The consolidated entity's operations are subject to environmental regulation of the territories in which it operates. Details of the consolidated entity's performance in relation to environmental regulation 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, Phoslock is imported from a contract manufacturing operation in China that has received NICNAS certification. The certification is renewed annually.

Phoslock has been awarded the North American Drinking Water certification (NSF/ANSI 60) since 2011. The certification is also renewed annually.

Phoslock has been certified by Chinese Research Academy of Environmental Sciences (CRAES). Phoslock is classified as a general environmental substance. It is neither hazardous nor harmful to the environment. Phoslock has low risk to the hydro ecological system.

Internationally, the group is committed to comply with all local regulatory authority requirements. The directors are not aware of any breaches of environmental regulations by the consolidated entity in any of the regions in which the company operates.

Remuneration Policy

The remuneration policy of Phoslock Water Solutions Limited has been designed to align director and executive objectives with shareholder and business objectives



PHOSLOCK BEING APPLIED TO LAKE IN BELGIUM

by providing a fixed remuneration component and offering bonus payments based on the consolidated entity's financial results. The Board of Phoslock Water Solutions Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the high quality executives and directors to run and manage the consolidated entity, as well as create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for board members and senior executives of the consolidated entity is as follows: The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the remuneration committee. The remuneration committee currently comprises of only non-executive directors. The Company has adopted the ASX recommendation for the remuneration committee to comprise only non-executive directors.

All executives receive a base salary (which is based on factors such as length of service and experience), superannuation and share options or a bonus (if certain milestones are met). The remuneration committee reviews

executive packages annually by reference to the consolidated entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries. Executives and directors do not receive any other retirement benefits. All remuneration paid to key management personnel is measured at cost to the company and expensed. Bonuses totalling \$60,000 were paid to three PWS executive during FY2016/17.

7.25 million "out of the money" performance options were issued to the Key Management Personnel during 2017 (2016: 10.0 million). The Board's policy is to remunerate non-executive directors by reference to market rates for comparable companies, time commitment, responsibilities and experience relevant to the industry. The remuneration committee determines payments to non-executive directors and reviews their remuneration annually based on market practice, duties and accountability.

The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. The current aggregate maximum sum available

for remuneration of non-executive directors is set at \$200,000 per year (approved at the 2004 Annual General Meeting). With the number of non-executive directors increasing from two to three and potentially further non-executive directors will be added to the Board, shareholders will be asked to increase the aggregate amount of non-executive director fees at the 2017 Annual General Meeting. Fees for non-executive directors are not linked to the performance of the consolidated entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company and are able to participate in share placements on the same terms as other investors subscribing for shares.

The aggregate of non-executive director fees (including superannuation) for 2017 was \$129,258 (2016: \$110,012). As at 30 June 2017, the Board comprised three non-executive directors and one executive director.

The four directors, directly and indirectly, held 132,989,483 (2016: 83,293,039) ordinary fully paid shares in the company as at 30 June, 2017 which comprised 32.2% (2016: 22.8%) of the total issued shares of the company.

Key Management Personnel Remuneration

	Short-term Employment Benefits				Post Employment Benefits	Long-term Benefits	Share Based Payments	Total	Performance Related
	Salary, Fees & Commissions	Non Monetary	Bonus	Allowance	Superannuation	Accrued Long Service Leave	Shares & Options		
30 June 2017	\$	\$	\$	\$	\$	\$	\$	\$	%
Mr Robert Schuitema	206,032	10,000	20,000	53,484	34,598	11,229	2,223	337,566	6.5%
The Hon. Pam Allan	55,003				5,501		-	60,504	0.0%
Mr Laurence Freedman	62,503				6,251		-	68,754	0.0%
Mr Zhigang Zhang (i)	-							-	0.0%
	323,538	10,000	20,000	53,484	46,350	11,229	2,223	466,824	4.7%
Specified Executives									
Mr Nigel Traill	159,571	13,500	20,000	-	19,163	1,268	1,482	214,984	9.9%
Mr Andrew Winks	126,496	13,500	20,000	12,000	15,998	3,066	1,482	192,542	11.2%
Dr Sarah Groves	86,538	-	-	-	8,654	2,629	185	98,006	0.0%
Zhongming Hong (i)	36,400	-	-	81,600	24,000	-	-	142,000	0.0%
Dr Xingyuan Wang (ii)	-	-	-	42,000	12,000	-	-	54,000	0.0%
	409,005	27,000	40,000	135,600	79,815	6,963	3,149	701,532	6.1%
Total	732,543	37,000	60,000	189,084	126,165	18,192	5,372	1,168,356	5.6%

(i) Mr Zhang was appointed as non executive director on 13 June, 2017

	Short-term Employment Benefits				Post Employment Benefits	Long-term Benefits	Share Based Payments	Total	Performance Related
	Salary, Fees & Commissions	Non Monetary	Bonus	Allowance	Superannuation	Accrued Long Service Leave	Shares & Options		
30 June 2016	\$	\$	\$	\$	\$	\$	\$	\$	%
Mr Robert Schuitema	157,000	33,500	-	44,739	35,500	2,355	26,173	299,267	8.7%
The Hon. Pam Allan	50,004	-	-	-	5,002	-	-	55,006	
Mr Laurence Freedman	50,004	-	-	-	5,002	-	-	55,006	
	257,008	33,500	9,078	44,739	45,504	2,355	26,173	409,279	6.4%
Specified Executives									
Mr Nigel Traill	162,989	1,500	-	-	16,000	4,997	26,173	211,659	12.4%
Mr Andrew Winks	111,833	1,500	-	-	10,708	23,269	26,173	173,483	15.1%
Dr Sarah Groves	78,750	-	-	-	7,500	326	13,087	99,663	13.1%
Zhongming Hong (i)	32,000	-	-	40,800	12,000	2,965	26,173	113,938	23.0%
Dr Xingyuan Wang (ii)	-	-	-	17,517	-	-	13,087	30,604	42.8%
	385,572	3,000	-	58,317	46,208	31,557	104,693	629,347	16.6%
Total	642,580	36,500		103,056	91,712	33,912	130,866	1,038,626	12.6%

(i) Mr Hong commenced employment on 21 January, 2016 (ii) Dr Wang commenced employment on 27 April, 2016

Remuneration

The executive director and two executives were paid bonuses totalling \$60,000 during the year (2016:\$0) "Out of the money" Performance Options were issued to the Managing Director and specified executives as part of the Company's incentive and retention programme. The Performance Options have a performance criteria of \$25 million of sales in the period 10 April 2017 to 30 June 2019. These options were allocated on a performance basis. 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.

"Out of the money" Options were issued to 6 Key Management Personnel.

Shares & Options

Shares Issued as Part of Remuneration for the Year Ended 30 June 2017

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

	Balance 1.07.2016	Placement	Con Notes Exercised	Options Exercised	On Market Purchases	On Market Sales	Balance 30.06.2017
Key Management Personnel							
Mr Laurence Freedman	68,312,091	-	14,130,435	5,000,000	566,009	-	88,008,535
Mr Robert Schuitema	14,495,948	-	-	-	-	-	14,495,948
The Hon. Pam Allan	485,000	-	-	-	-	-	485,000
Mr Zhigang Zhang	-	30,000,000	-	-	-	-	30,000,000
Mr Nigel Traill	3,769,360	-	-	-	-	-	3,769,360
Dr Sarah Groves	516,996	-	-	-	-	-	516,996
Mr Andrew Winks	640,373	-	-	-	-	-	640,373
Zhongming Hong	12,265,500	-	-	-	-	(865,500)	11,400,000
Dr Xingyuan Wang	1,900,000	-	-	-	400,000	(1,100,000)	1,200,000
Total	102,385,268	30,000,000	14,130,435	5,000,000	966,009	(1,965,500)	150,516,212

Total % PWS Shareholding

28.2%

36.4%

Options Issued as Part of Remuneration for the Year Ended 30 June 2017

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

	Balance 1.07.2016	Issue Date	Options Acquired	Options Lapsed	Balance 30.06.2017	Total Vested 30.06.2017	Total Exercisable 30.06.2017	Total Unexercisable 30.06.2017
	No.		No.	No.	No.	No.	No.	No.
Mr Laurence Freedman	-	-	-	-	-	-	-	-
Mr Robert Schuitema	2,000,000	10 April 17	3,000,000	-	5,000,000	-	-	5,000,000
The Hon. Pam Allan	-	-	-	-	-	-	-	-
Mr Nigel Traill	2,000,000	10 April 17	2,000,000	-	4,000,000	-	-	4,000,000
Dr Sarah Groves	1,000,000	10 April 17	250,000	-	1,250,000	-	-	1,250,000
Mr Andrew Winks	2,000,000	10 April 17	2,000,000	-	4,000,000	-	-	4,000,000
Zhongming Hong	7,000,000	-	-	-	7,000,000	5,000,000	5,000,000	2,000,000
Dr Xingyuan Wang	1,000,000	-	-	-	1,000,000	-	-	1,000,000
Total	15,000,000		7,250,000	-	22,250,000	5,000,000	5,000,000	17,250,000

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

	2017		2016	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
		\$		\$
Outstanding at the beginning of the year *	18,600,000	\$0.082	5,000,000	\$0.100
Options issued during the year	35,000,000	\$0.105	18,600,000	\$0.082
Vesting conditions not met	-	-	(5,000,000)	\$0.100
Vested options not exercised	-	-	-	-
Outstanding at year end	53,600,000	\$0.097	18,600,000	\$0.082
Exercisable at year end	5,000,000	\$0.060	5,000,000	\$0.060

* Includes options issued to Employees and Consultants

The 53,600,000 options were outstanding at 30 June 2017 had a weighted average exercise price of \$0.097 and a weighted average expected life of 1.7 years. The average exercise price for the options outstanding at 30 June 2016 was \$0.082.

Options do not entitle the holder to participate in any share issue of the Company, nor do they carry any voting rights or rights to dividends. Details regarding the group's share-based payment schemes are included in Note 24.

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

Other Equity related Key Management Personnel transactions

On 31 May, 2017 Link Traders (Aust) Pty Ltd, a related party of the Chairman, Laurence Freedman converted \$650,000 of Convertible Notes into 14.1 million PWS shares.

Meetings of Directors

During the financial year, 13 meetings of directors (including committees of directors) were held. Attendances by each director during the year were:

	Directors' Meeting		Committee Meeting			
	Number Eligible to attend	Number Attended	Audit & Compliance		Remuneration	
	Number Eligible to attend	Number Attended	Number Eligible to attend	Number Attended	Number Eligible to attend	Number Attended
Mr Laurence Freedman	9	8	2	2	2	2
Mr Robert Schuitema	9	9	2	2	-	-
The Hon. Pam Allan	9	8	2	2	2	2
Mr Zhigang Zhang	-	-	-	-	-	-

Loans to Key Management Personnel

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

Aggregates for Key Management Personnel

	2017	2016
	\$	\$
Balance at the beginning of the year	37,000	28,500
Loans advanced	-	45,000
Loans repayments received (offset against salary)	(37,000)	(36,500)
Balance at the end of the year	-	37,000

Loans advanced in FY2016 were to employees to participate in Share Purchase Plan in May 2016. All employee loans have been repaid.

No interest is charged in respect of any of the loans to directors and key management personnel. The loans were unsecured and repayable over a period of up to 10 months by way of monthly salary deductions.

No new loan were made to any key management personnel during FY2017.

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

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

Employment Contracts of Directors and Senior Executives

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

Employment contracts for senior executives stipulate a range of one to three month resignation periods (six months for the Managing Director) and up to twelve months if there is a change in control of the Company. The Company may terminate a contract of employment without cause by providing written notice or making payment in lieu of notice for a period equivalent to the resignation period. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time. Directors and Key Management Personnel (and their related parties) hold 150,516,212 (2016: 102,385,268) and 22,500,000 options outstanding as at 30 June 2017 (2016: 15,000,000). Most of the options have performance criteria which must be met before the options can vest.

There were no termination payments during the year (2016: nil).

Information on Directors

Mr Laurence Freedman AM	Chairman (Non-executive)
Qualifications	CPA , MAusIMM
Experience	<p>Board member since 20 October 2010.</p> <p>Mr Freedman has a long history and involvement with listed and private companies as both a major shareholder and also as non-executive director. He founded the EquitiLink Group, building it into a global investment management corporation , which he sold with his partner in 2000. He has held Chairman and Director roles in many international companies. He currently manages private investments in shares, property and fixed interest investments.</p> <p>Mr Freedman is Chairman of the Freedman Foundation, a philanthropic enterprise, in Australia.</p> <p>Mr Freedman was previously Chairman of ASX listed companies KalNorth Gold Mines Ltd and Inca Copper & Gold Ltd.</p>
Interest in Shares & Options	88,008,535 Ordinary Shares in Phoslock Water Solutions Ltd via his related company, Link Traders (Aust) Pty Ltd and related companies, and related party family members.
Special Responsibilities	Mr Freedman is Chairman of the Remuneration Committee and a Member of the Audit, Nomination and Compliance Committee.
Mr Robert Schuitema	Managing Director (Executive)
Qualifications	Chartered Accountant, BCA, INFINZ
Experience	<p>Board member since April 2005.</p> <p>Former Managing Director of investment bank Chase Manhattan and later JP Morgan Chase responsible for the bank's mining, metals and project finance business in Australia and the Asia Pacific region.</p> <p>Mr Schuitema was previously a Director of ASX listed companies KalNorth Gold Mines Ltd, Electro Optical Systems Ltd and Inca Copper & Gold Ltd.</p>
Interest in Shares & Options	<p>14,495,948 Ordinary Shares in Phoslock Water Solutions Ltd via his related company, Sail Ahead Pty Ltd and related party family members.</p> <p>5,000,000 Options over Phoslock Water Solutions Ltd shares.</p>
Special Responsibilities	Mr Schuitema is a Member of the Audit, Nomination and Compliance Committee.
The Hon. Pam Allan	Director (Non-executive)
Qualifications	B Arts (Hons) Dip.Ed. University of Sydney, Fellow at the Graduate School of Environment, Macquarie University.
Experience	<p>Board member since 2007.</p> <p>18 years membership of the NSW parliament including 5 years as Minister for the Environment.</p>
Interest in Shares & Options	485,000 Ordinary Shares in Phoslock Water Solutions Ltd.
Special Responsibilities	Ms Allan is a Chairperson of the Audit and Compliance Committee and a Member of the Remuneration Committee
Mr Zhigang Zhang	Director (Non-executive)
Experience	<p>Board member since June 2017.</p> <p>Mr Zhang is General Manager of BHZQ Environmental, a subsidiary of the largest water group in China and Asia.</p> <p>Mr Zhang has worked in the water remediation and water treatment industry in China and overseas for over 30 years.</p>
Interest in Shares & Options	30,000,000 Ordinary Shares and 30,000,000 Unlisted Options in Phoslock Water Solutions Ltd held directly and indirectly.
Special Responsibilities	Mr Zhang is a Member of the Remuneration Committee and the Audit, Nomination and Compliance Committee.

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



APPLICATION TO PETWORTH, NATIONAL TRUST PROPERTY, ENGLAND

Indemnifying Officers or Auditor

During or since the end of the financial year the Company has given an indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

The Company has paid premiums totalling \$39,793 (2016: \$31,539) to insure all directors and executives against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director or officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company. Neither indemnities nor agreements to indemnify exist in relation to the Company's auditor.

Proceedings on Behalf of Company

No person has applied for leave of Court to bring

proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceeding. The Company was not a party to any such proceedings during the year.

Non-Audit Services

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

Auditor's Independence Declaration

The lead auditor's independence declaration in accordance with Section 307C of the Corporations Act 2001, for the year ended 30th June 2017 has been received and can be found on page 25 of the Financial Report.

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

Robert Schuitema

Managing Director

Dated at Sydney, 25th August 2017

The Hon. Pam Allan

Non-Executive Director - Chairman of Audit Committee

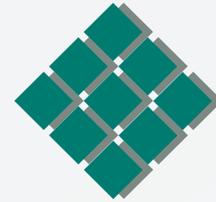
Dated at Sydney, 25th August 2017

Auditor's Independence Declaration

Under Section 307C of the Corporations Act 2001

W. W. Vick & Co.

Chartered Accountants
ABN 14 568 923 714



To the directors of Phoslock Water Solutions Limited and Controlled Entities

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2017, there have been:

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

4th Floor
379-383 Pitt Street
Sydney NSW 2000

Dated: 25 August 2017

W. W. Vick & Co.
Chartered Accountants

Phillip Jones - Partner

Fayworth House, Suite 403, 4th floor, 379-383 Pitt Street, Sydney, NSW 2000
PO Box 20037, World Square, NSW 2002
Phone: (02) 9266 0881 Fax: (02) 9266 0886



Liability limited by
scheme approved
under Professional
Standards Legislation

Corporate Governance

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

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

Composition of the Board

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

- The Board should consist of at least 4 Directors, increasing where additional expertise is considered desirable in certain areas.
- The majority of the Board members should be Independent Non-Executive Directors.
- The Chairman of the Board should be an Independent Non-Executive Director.
- Directors should bring characteristics which allow a mix of qualifications, skills and experience both nationally and internationally.
- All available information in connection with items to be discussed at a meeting of the Board shall be provided to each Director prior to that meeting.

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

Mr Freedman is Phoslock Water Solutions Limited largest shareholder. Mr Freedman's direct and indirect shareholding in the Company totals 88.2 million shares which is equivalent to 20.7% of the Company's issued capital. A company associated to Mr Freedman provides debtor factoring facilities from time to time to the Company. This allows the Company to convert a debtor invoice into cash, which is used for working capital by the Company. The terms and conditions provided by the company associated to Mr Freedman is more favourable to the Company than it would obtain from trading banks or specialist debtor financing companies.

The Company does not deal with Mr Freedman on these transactions, with the administration of these handled by full

time employees of the financing company.

This Company has also provided a short term loan of \$1 million to assist finance the fit-out of the Changxing factory. This loan is due for repayment by 30 November, 2017.

The three directors of the Company, other than Mr Freedman, have considered the ASX Corporate Governance Principle 2 (2.1 and 2.2 – detailed on page 28 of this Annual Report) and believe that it is in the best interests of the Company and its shareholders having Mr Freedman as non-executive Chairman of the Company.

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

The primary responsibilities of the Board include:

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

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

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

Independent professional advice

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

Remuneration

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

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

Audit committee

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

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

The responsibilities of the Audit Committee include:

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

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

Business risk

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

Specific areas of risk identified initially and regularly considered at Board Meetings include risks associated with business and investment, new and rapidly evolving

markets, technological change, competition and business and strategic alliances, the environment and continuous disclosure obligations.

Ethical standards

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

Trading in Phoslock Water Solutions Limited Securities

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

Authority limits

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

Confidentiality

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

Dealing with conflicts of interest

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

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

A conflict will arise:

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

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

ASX Principle

Company Status & Reference/Comment

Principle 1: Lay solid foundations for management and oversight

The listed entity should disclose:

1.1(a)	Roles & Responsibilities of board and management	A	Roles & responsibilities of Board and Management are defined; Board reviewing and updating these
1.1(b)	Matters reserved for the Board and those delegated to management	A	Matters reserved for Board and Management are defined; Board reviewing and updating these
1.2(a)	Appropriate checks before appointing or nominating a new Director	A	Nomination committee responsible for ensuring this occurs
1.2(b)	Provide shareholders with material information for reappointment or election of new Director	A	Nomination committee responsible for ensuring this occurs
1.3	Written agreement with each Director and Senior Executive	A	Written agreements in place; Board to review all existing agreements annually
1.4	Company Secretary accountable to Board, via Chair	A	Company Secretary reports to Board via Chair. Current Company Secretary is a Director, with protocol observed
1.5	Company should have a Diversity Policy	A	The number of employees has increased during the year, with most of the new employees being Chinese employees. The Board will look at implementing a Diversity Policy.
1.6(a)	Board should have policy of evaluating Board, its Directors and Committees	A	Board undertook a review this year which resulted in changes to the board and two new Directors.
1.6(b)	Company should disclose whether a performance evaluation has been undertaken during the reporting period	A	Company will report on the performance evaluation each year
1.7(a)	Periodic evaluation of senior executives	A	Company undertakes annual reviews evaluating each senior executive
1.7(b)	Company should disclose whether a performance evaluation has been undertaken during the reporting period	A	Company will report on the performance evaluation each year.

Principle 2: Structure the Board to add Value

2.1	Company should have a Nomination Committee	A	Company has a Nomination Committee currently comprising all Directors Nomination Committee Charter on company website
2.2	Company should disclose skills of each Director	A	The skills and experience of each Director is set out in the company's Annual Report and on the company's website.
2.3(a)	Company should disclose which Directors are considered to be independent	A	Company details which Director is independent
2.3(b)	Company should detail reasons why a Director is independent	A	Company has detailed on page 25 reasons why the Chairman is considered independent
2.3(c)	Company should detail the length of service of each Director	A	The length of service of each Director is set out in the company's Annual Report and on the company's website.
2.4	A majority of Directors should be independent	A	Four of the five Directors are independent Non-Executive Directors
2.5	The Chairman of the Board should be an independent Director	A	The Company has an independent Chairman
	The position of Chairman and CEO/MD should not be held by the same person	A	The positions of Chairman and CEO/MD are not held by the same person
2.6	Company should provide an induction program for new Directors	A	Company provides an induction programme for new Directors
	Directors should be given opportunity to develop skills and knowledge for role as Director	A	Company will discuss with Chairman and Directors if development support is required

Principle 3: Act Ethically and Responsibly

3.1(a)	Company should have a Code of Conduct for its Directors, executives and employees	A	Company has an Ethics Charter which is published on the company's website
3.1(b)	Company should disclose the Code of Conduct	A	The Ethics Charter which is published on the company's website

Principle 4: Safeguard Integrity in Corporate Reporting

4.1(a)	Company should have an Audit Committee	A	Company has an Audit & Compliance committee
4.1(a)(1)	Audit Committee should comprise at least three Directors, majority of whom are independent	A	Audit & Compliance committee comprises three Directors, two of whom are independent
4.1(a)(2)	Audit Committee should be chaired by an independent Director	A	Audit & Compliance committee is chaired by an independent Director
4.1(a)(3)	Audit Committee should have a charter which is published	A	Audit & Compliance charter will be published this financial year
4.1(a)(4)	Relevant experience of each member of Audit Committee disclosed	A	The experience of each member of the Audit & Compliance committee is set out in the company's Annual Report and on the company's website
4.1(a)(5)	Report the number of meetings of the Audit Committee and those who attended	A	The number of meetings and attendance of Directors at the Audit & Compliance committee meetings is set out in the company's Annual Report
4.2	Board should receive a Declaration from CEO/MD and CFO that financial statements have been prepared properly and company has appropriate controls in place	A	CEO/MD and CFO provide a signed declaration that financial statements have been prepared properly and company has appropriate controls in place
4.3	Company should ensure that external auditors attend AGM and available to answer questions	A	External auditors attend company's AGM and are available to answer questions

ASX Principle

Company Status & Reference/Comment

Principle 5: Make Timely and Balanced Disclosure

5.1(a)	Company should have a written policy for complying with the ASX Listing Rules Continuous Disclosure	A	Company is fully aware of its obligations with the ASX Listing Rules Continuous Disclosure
5.1(b)	Company to disclose the policy	A	Company is fully aware of its obligations with the ASX Listing Rules Continuous Disclosure

Principle 6: Respect the Right of Security Holders

6.1	Company should provide information about itself and its governance to investors via its website	A	Company's website provides significant information on the company including detailing its governance disclosures
6.2	Company should implement an investor relations program to facilitate two way communication with investors	A	Given the size of the company, it uses ASX releases and its website to communicate with investors material information. It has recently engage a consultant to assist with investor communication
6.3	Company should disclose policies and processes to encourage participation at meetings of security holders	A	All security holders are sent information on Notice of Meetings well in advance of the meetings; at the meetings security holders are given ample opportunity to raise issues or ask questions
6.4	Security holders should be given the option to receive communication and send communication electronically	A	Company is working with its Share Registrar to get email addresses of all its shareholders to enable documents to be sent electronically

Principle 7: Recognise and Manage Risk

7.1	Company should have an Risk Management Committee	A	Company has an Audit & Compliance committee which covers Risk Management
7.2(a)	Board undertakes an annual review of Risk Management	A	Risk Management issues are discussed at each Director's meeting
7.2(b)	Board should disclose whether a Risk Management review took place	A	Company will report Risk Management review in Director's Report to security holders
7.3(a)	Company should disclose if it has an internal audit function	A	Company does not have an internal audit function. Role of external auditors is very extensive
7.3(b)	If no internal audit function, what is company doing to monitor risk management	A	Company has internal controls to manage risk issues.
7.4	Company should disclose if it has any material exposure to economic, environmental and social sustainability risks	A	Company discloses major risks in Director's Report in Annual Report

Principle 8: Remunerate Fairly and Responsibly

8.1(a)	Company should have a Remuneration Committee	A	Company has a Remuneration Committee
8.1(a)(1)	Remuneration Committee should comprise at least three Directors, majority of whom are independent	A	Remuneration Committee comprises three Directors, both of whom are independent
8.1(a)(2)	Remuneration Committee should be chaired by an independent Director	A	Remuneration Committee is chaired by an independent Director
8.1(a)(3)	Remuneration Committee should have a charter which is published	A	Remuneration Committee charter is set out in the company's website
8.1(a)(4)	Relevant experience of each member of Remuneration Committee disclosed	A	The experience of each member of the Remuneration Committee is set out in the company's Annual Report and on the company's website
8.1(a)(5)	Report the number of meetings of the Remuneration Committee and those who attended	A	The number of meetings and attendance of Directors at the Remuneration Committee meetings is set out in the company's Annual Report
8.2	Company should disclose remuneration policies	A	These are detailed in the Director's Report in the Annual Report
8.3	If company's have an equity based remuneration scheme can participants limit risk through use of derivatives or other instruments	A	There is currently no derivatives market for PHK equities

Consolidated Statement of Profit or Loss and other Comprehensive Income for the year ended 30 June 2017

	Note	2017	2016
		\$	\$
Sales revenue	2	3,825,406	1,730,649
Cost of sales		(2,482,143)	(1,101,367)
Gross profit		1,343,263	629,282
Other revenue	2	401,901	465,593
Distribution expenses		(44,407)	(42,787)
Marketing expenses		(333,800)	(278,467)
Occupancy expenses		(188,070)	(106,667)
Administrative expenses		(1,022,673)	(762,586)
Employee benefit expenses (excluding options expenses)	3	(1,661,118)	(1,096,478)
Employee benefit expenses- options expenses		(20,991)	(177,978)
Depreciation and amortisation	13	(56,679)	(64,984)
Finance costs	3	(225,222)	(853,823)
Options expenses		(14,817)	(25,004)
Loss Before Income Tax		(1,822,613)	(2,313,899)
Income tax expense/ (revenue)	4	-	-
Loss For The Year	3	(1,822,613)	(2,313,899)
Other Comprehensive Income			
Items that will be reclassified subsequently to profit or loss when specific conditions are met.			
Exchange differences arising on translation of foreign controlled entities		(11,868)	28,552
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(1,834,481)	(2,285,347)
Profit (Loss) for the year attributable to:			
- Owners of parent entity		(1,867,295)	(2,323,609)
- non-controlling interest		44,682	9,710
Total loss for the year		(1,822,613)	(2,313,899)
Total comprehensive loss for the year attributable to:			
- Owners of parent entity		(1,879,163)	(2,295,057)
- non-controlling interest		44,682	9,710
Total comprehensive loss for the year		(1,834,481)	(2,285,347)
Earnings per share			
Basic earnings per share (cents per share)	8	(0.50)	(0.87)
Diluted earnings per share (cents per share)	8	(0.46)	(0.78)

The accompanying notes form part of these consolidated financial statements

Consolidated Statement Of Financial Position as at 30 June 2017

	Note	2017	2016
		\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents	9	1,234,243	1,306,865
Trade and other receivables	10	1,172,751	692,109
Inventories	11	897,336	498,830
Other assets	15	141,601	97,890
Total Current Assets		3,445,931	2,595,694
Non-Current Assets			
Financial assets	9(a)	25,000	25,000
Plant and equipment	13	1,038,093	56,687
Intangible assets	14	-	-
Total Non-Current Assets		1,063,093	81,687
TOTAL ASSETS		4,509,024	2,677,381
Current Liabilities			
Trade and other payables	16	330,443	597,758
Financial liabilities	17 (a)	1,792,241	943,549
Other liabilities	5	89,830	89,830
Short term provisions	18	352,134	390,330
Total Current Liabilities		2,564,648	2,021,467
Non-Current Liabilities			
Long-term provisions	18	8,707	7,572
Total Non-Current Liabilities		8,707	7,572
Total Liabilities		2,573,355	2,029,039
NET ASSETS/(LIABILITIES)		1,935,669	648,342
EQUITY			
Issued capital	19	41,551,112	38,465,112
Reserves	20	405,896	411,341
Accumulated loss		(39,821,703)	(37,983,793)
Parent interest		2,135,304	892,660
Non-controlling interest		(199,636)	(244,318)
TOTAL EQUITY		1,935,669	648,342

The accompanying notes form part of these consolidated financial statements

Consolidated Statement of Changes in Equity for the year ended 30 June 2017

	Issued capital \$	Option Reserves	Foreign currency translation reserves \$	Non controlling interests \$	Accumulated losses \$	Total \$
30 June 2016						
Balance at 1 July 2015	32,112,271	74,408	89,970	(238,600)	(35,660,184)	(3,622,135)
Total comprehensive income						
Loss for the year	-	-	-	9,710	(2,323,609)	(2,313,899)
Other comprehensive income	-	-	28,552	-	-	28,552
Transfer to reserves	-	-	15,428	(15,428)	-	-
Total comprehensive income/(loss) for the year	-	-	43,980	(5,718)	(2,323,609)	(2,285,347)
Transactions with owners in their capacity as owners						
Shares issued during the year	6,425,561	-	-	-	-	6,425,561
Transaction costs relating to issue of equity	(72,720)					(72,720)
Options issued during the year	-	202,983	-	-	-	202,983
Total transactions with owners in their capacity as owners	6,352,841	202,983	-	-	-	6,555,824
Balance at 30 June 2016	38,465,112	277,391	133,950	(244,318)	(37,983,793)	648,342
30 June 2017						
Balance at 1 July 2016	38,465,112	277,391	133,950	(244,318)	(37,983,793)	648,342
Total comprehensive income						
Loss for the year	-	-	-	44,682	(1,867,295)	(1,822,613)
Other comprehensive income	-	-	(11,868)	-	-	(11,868)
Total comprehensive income/(loss) for the year	-	-	(11,868)	44,682	(1,867,295)	(1,834,481)
Transactions with owners in their capacity as owners						
Shares issued during the year	3,086,000	-	-	-	-	3,086,000
Options issued during the year	-	35,808	-	-	-	35,808
Transfer option reserves to accumulated losses	-	(29,385)	-	-	29,385	-
Total transactions with owners in their capacity as owners	3,086,000	6,423	-	-	29,385	3,121,808
Balance at 30 June 2017	41,551,112	283,814	122,082	(199,636)	(39,821,703)	1,935,669

The accompanying notes form part of these consolidated financial statements

Consolidated Statement of Cash Flows for the year ended 30 June 2017

	Note	2017	2016
		\$	\$
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts from customers and government grant		3,745,170	2,092,818
Payments to suppliers and employees		(6,482,995)	(3,623,400)
Interest received		1,495	1,727
Finance costs		(221,030)	(567,998)
Net cash from (used) in operating activities	23	(2,957,360)	(2,096,853)
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from disposal of treasury shares		-	-
Proceeds from disposal of plant and equipment		-	-
Purchase of property, plant and equipment		(1,040,323)	(17,274)
Net cash from (used) in investing activities		(1,040,323)	(17,274)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		2,436,000	4,778,645
Payment of transaction cost - equity raising		-	(72,720)
Repayment of convertible security		-	(805,000)
Proceeds from borrowings		3,000,000	1,325,000
Repayment of borrowings		(1,500,000)	(1,998,555)
Net cash from (used) financing activities		3,936,000	3,227,370
Net increase/(decrease) in cash and cash equivalents held		(61,683)	1,113,243
Cash and cash equivalents at the beginning of the period		1,306,865	107,367
Effect of exchange rates on cash holdings in foreign currencies		(10,939)	86,255
Cash and cash equivalents at the end of the period	9	1,234,243	1,306,865

The accompanying notes form part of these consolidated financial statements

Notes to the Consolidated Financial Statements for the year ended 30 June 2017

Corporate Information

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

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

Separate financial statements for Phoslock Water Solutions Limited as an individual entity are not presented, however, limited financial information for the Company as an individual entity is included in Note 12.

Note 1 Statement Of Significant Accounting Policies

Basis of Preparation

Statement of Compliance

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

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

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

The financial statements were authorised for issue by the Board of Directors on 25 August 2017.

Basis of Measurement

The financial statements are based on historical costs, except for cash flow information, the financial statements have been prepared on an accrual basis and are based on historical costs, modified where applicable, by the

measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Functional and Presentation Currency

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

Significant Accounting Policies

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

(a) Material Uncertainty Regarding Going Concern

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

The consolidated entity incurred a significant loss after income tax of \$1,822,613 (2016 \$2,313,899), for the year ended 30 June 2017 in respect of the principal activities relating to the sale and marketing of Phoslock globally. The consolidated entity has accumulated losses of \$39,821,703 (2016 : \$37,983,793) as at 30 June 2017. The company has net assets of \$1,935,669 (2016: \$648,342) largely made up of \$4.5 million of Current & Term Assets and \$2.6 million of Liabilities.

Revenue for 2017 amounted to \$4,227,307 (2016: \$2,196,242), which was 92% higher than FY2016, which was just short of management's projection of \$4.5 - 5 million. This was largely attributable to delays reduced revenues from China operations. Phoslock Beijing did not formally commence operations until 1 July, 2017.

The total liabilities of the group as at 30 June 2017 totalled \$2,573,355 is largely made up of trade creditors \$281,438 (2016: 564,784) employee entitlements accrued \$360,841 (2016:\$397,902), subordinated loan from Bentophos GmbH to Phoslock Europe of \$292,240 (2016: \$293,549) and short-term loans of \$1,500,000 (2016: \$0). At balance date, the company has cash reserves of \$1,234,243 (2016: \$1,306,865).

The key underlying assumptions of the directors in



PHOSLOCK BEING APPLIED TO PAMPULHA, BRAZIL

preparing the report on the going concern basis are:

- the consolidated entity has prepared detailed cash flow forecasts and assumptions for the period ending 12 months period (1 September, 2017 to 31 August 2018), and the directors consider that the cash flow forecasts are reasonable in the circumstances to support the Company's continued going concern. The detailed cash flows, which reflect the detailed assumptions below, indicate a forecast cash balance of \$4.3 million on 31 August, 2018. During the forecast period additional equity of A\$4.5 million could be raised from the exercise of options, which at the date of this report are in the money, and possibly an equity raising to finance increased business activity in China.
- the budget for the period September 2017 to August 2018 which underpins the abovementioned cash flow forecasts, is dependent on sales revenue of materials and services of \$19.8m and government grants of \$0.4 million. Forecast cost of goods sold are \$13.2 million giving a gross profit margin of 35%, similar to FY2016-17. Capital expenditures is forecast to be \$0.5 million. Operating costs are forecast to be \$4.8 million. Implicit in the sales forecast is sales of 6,500 tonnes of Phoslock from the Changxing factory in China and internationally; contracting revenues and other materials of approx \$5 million.
- this level of revenue would generate a gross profit of \$7 million and an estimated consolidated net profit of approx \$2-2.5 million.

Achieving the forecast budget, including the collection of trade receivables at 30 June 2017, will ensure the

company has sufficient funds from existing cash and assets, and generated by operations in the next 12 months to meet its liabilities. Any material reduction in sales or an inability to repay or renegotiate the \$1.0 million loan facility due on 30 November, 2017 will require the Board to consider capital funding.

The Group has forecast cash operating costs of \$4.8 million. The Group has the ability to contain these costs within the limits set.

The Directors will continue to monitor the Group's progress against the cash flow forecasts on a regular basis.

The forecast budget includes cash receipts of \$0.5m from debtors, projects recently completed, orders received but not completed and orders from annual repeat customers totalling 20 projects/customers. The forecast budget also includes 4 large projects being undertaken during FY2017/18 - two in China and one in Europe and Brazil. Work on some of the large projects will be greater than 12 months - Pampulha project in Brazil will be 18 months with a further new contract currently being finalised. Several of the large Chinese projects are scheduled for 12-24 months of ongoing work.

The Company may need to undertake an equity raising in FY 2017-18 to fund the expansion of its business, particularly China, however no decision has been made regarding the amount, the timing, structure of any offering or whether it would be targeted towards existing equity holders or new equity holders (Australian or international), including strategic partners. If key

items underpinning the cashflow forecast are not realised, the consolidated entity may need to raise capital in FY2017-18. The Directors consider that any capital raising activities which are required to fund operating cash flow shortages will be successful based on the company's prior capital raising initiatives.

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

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

(b) Principles of Consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent (Phoslock Water Solutions Ltd) and all of the subsidiaries. Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as "non-controlling interests". The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary's net assets on

liquidation at either fair value or at the non-controlling interests' proportionate share of the subsidiary's net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of profit or loss and other comprehensive income.

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

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

(c) Foreign Currency Transactions and Balances

Functional and presentation currency

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

Transaction and balances

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

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

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive

income; otherwise the exchange difference is recognised in profit or loss.

Group Companies

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

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

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

(d) Revenue and Other Income

Revenue is measured at the fair value of consideration received or receivable, net of discounts. When the inflow of consideration is deferred, it is treated as the provision of financing and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue. Revenue is recognised to the extent that it is probable that economic benefits will flow to the group, and revenue can be reliably measured.

Revenue from the sale of goods is recognised at the point of delivery (delivery location as specified in the contract) as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

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

Export development and Research and Development grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs it is compensating.

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

(e) Income tax

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

Current income tax expense charged to profit or loss is the tax payable on taxable income for the current period. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

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

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

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

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal

of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

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

Investment allowances and similar tax incentives

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

(f) Impairment of Assets

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

(g) Leases

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

(h) Cash and cash equivalents

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

(i) Trade receivables

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

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

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

(j) Inventories

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

(k) Plant and Equipment

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

accumulated depreciation and impairment losses.

Plant and equipment

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

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 recognised as expenses in profit or loss during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Plant and Equipment	10-33%

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(l) Intangibles

Phoslock Licence Patents and Trademarks

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

Research and Development

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

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

(m) Financial instruments

Initial recognition and measurement

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

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

Classification and subsequent measurement

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

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

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including

fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

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

- (i) *Financial assets at fair value through profit or loss*
Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying amount being included in profit or loss.
- (ii) *Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.
- (iii) *Financial liabilities*
Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

Impairment

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

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or

a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

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

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

Financial guarantees

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

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

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

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

Derecognition

Financial assets are derecognised when the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset.

Financial liabilities are derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

(n) Trade and other payables

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

(o) Provisions

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

(p) Financial liabilities

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

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

(q) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(r) Employee benefits*Short-term obligations*

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

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

Other long-term obligations

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

The Group's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Group does not have an unconditional right to defer

settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

Equity-settled compensation

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

(s) Goods and Services Tax (GST)

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

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

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

(t) Contributed equity

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

Where any group company purchases the company's equity instruments, for example as the result of a share buy-back or a sharebased payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted

from equity attributable to the owners of Phoslock Water Solutions Limited as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of Phoslock Water Solutions Limited.

(u) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing:

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

Diluted earnings per share

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

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

(v) Parent entity financial information

The financial information for the parent entity, Phoslock Water Solutions Limited, disclosed in Note 12 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries and associates

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

Tax Consolidation

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



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

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

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

Financial guarantees

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

Share-based payments

The grant by the company of options over its equity instruments to the employees of subsidiary

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

(w) Segment reporting

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

(x) Comparative figures

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

(y) Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgements 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. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are as follows:

(i) Income taxes

The group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgment is required in determining the worldwide provision for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain.

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

(ii) Estimation of useful lives of assets

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

(iii) Provision for impairment of receivables

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

(iv) Long Service Leave Provision

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

(v) Impairment

The Group assesses impairment at the end of each reporting period by evaluating the conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

(z) New Accounting Standards for Application in Future Periods

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

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

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

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

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

AASB 15: Revenue from Contracts with Customers (applicable to annual reporting periods beginning on or after 1 January 2018, as deferred by AASB 2015-8: Amendments to Australian Accounting Standards – Effective Date of AASB 15).

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Apart from a limited number of exceptions, including leases, the new

revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

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

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

The transitional provisions of this Standard permit an entity to either: restate the contracts that existed in each prior period presented per AASB 108: *Accounting Policies, Changes in Accounting Estimates and Errors* (subject to certain practical expedients in AASB 15); or recognise the cumulative effect of retrospective application to incomplete contracts on the date of initial application. There are also enhanced disclosure requirements regarding revenue.

The Directors have analysed a sample of material contracts that are currently in place for the Group. These fall into two categories inventory sold at shipment and inventory sold on delivery. For inventory sold at shipment revenue is recognised when the goods are shipped. For inventory sold on delivery revenue is recognised when the goods have been delivered. The adoption of AASB15 is not expected to impact on these revenue recognition methods. The Group is in negotiations with a number of customers to supply product from the Groups new manufacturing facility. The Directors are unable to determine the impact of the adoption of AASB 15 on these proposed contracts at this date.

AASB 16: Leases (applicable to annual reporting periods beginning on or after 1 January 2019).

When effective, this Standard will replace the current accounting requirements applicable to leases in

AASB 117: Leases and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The main changes introduced by the new Standard include:

- recognition of a right-to-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets);
- depreciation of right-to-use assets in line with AASB 116: Property, Plant and Equipment in profit or loss and unwinding of the liability in principal and interest components;
- variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date;
- by applying a practical expedient, a lessee is permitted to elect not to separate non-lease components and instead account for all components as a lease; and
- additional disclosure requirements.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

The Group has operating leases over premises in Sydney and a manufacturing plant in China. Based on the leases that are currently operative the Group expects that the impact on initial adoption will be as follows:

- there will be an initial recognition of a right to use asset and a lease liability on the balance sheet of approximately \$500,000
- the effect on the consolidated profit or loss of the Group is expected to be immaterial to the Group. However operating leases of the company are currently recognised as a rental expense of the Group. Under AASB 16 the operating lease expenditure will be recognised as depreciation and interest expense. On adoption this is likely to result in an improvement to earnings before interest, tax depreciation and amortisation for the 30 June 2018 year of approximately 200K. Earnings before interest and tax is likely to result in a 50K improvement for the 30 June 2018 year.

Note 2 Revenue

	Note	Consolidated Group	
		2017	2016
		\$	\$
Sales Revenue			
- sale of goods		3,825,406	1,730,649
Sales revenue		3,825,406	1,730,649
Revenue			
- interest received	2 (a)	1,495	1,564
- export development/R&D grants		377,906	329,062
- other income		22,500	134,967
		401,901	465,593
Total Sales and other Revenue		4,227,307	2,196,242
(a) Interest revenue from:			
- other persons		1,495	1,564
- related parties		-	-
		1,495	1,564

Note 3 Loss For The Year

Loss for the year includes the following specific expense items:

	Note	Consolidated Group	
		2017	2016
		\$	\$
Expenses			
Finance costs:			
- Convertible Notes issued to third party - amortised interest expense		-	334,031
- Convertible Notes issued to related parties		97,505	307,973
- loans provided by related parties		116,938	204,138
- other interest		2,560	213
- Convertible Notes issued to third party - upfront finance fee expense		-	-
- Bank charges		8,219	7,468
Total finance costs		225,222	853,823
Fair value movement on derivative liability (included as part of other income for 2016)		-	(121,977)
Rental expense on leased premise			
- minimum lease payments		188,070	106,667
(Gain)/Loss on disposal of plant and equipment		-	-
Superannuation contributions		164,642	126,620
Depreciation and amortisation		56,679	64,984

For detailed discussion on significant expenses items, please refer to the Director's Report.

Note 4 Income Tax Expense

	Note	Consolidated Group	
		2017	2016
		\$	\$
(a) Income tax expense			
- current year		-	-
- deferred tax		-	-
(b) Numerical reconciliation of income tax expense to prima facie tax payable			
Operating profit/ (loss) before tax		(1,822,613)	(2,313,899)
Tax at the Australian tax rate of 27.5% (2016 - 28.5%)		(501,219)	(659,461)
Tax effect of:			
- share options expense		10,592	60,895
- foreign subsidiaries		133,625	13,764
- deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductible set out in Note 1(e) occur		357,002	584,802
Income tax expense/(revenue)		-	-
Weighted average effective tax rate		27.5%	28.5%
(c) Unrecognised deferred tax assets			
Accumulated losses		30,638,832	29,791,851
Potential tax losses		8,425,679	8,490,678
Temporary differences - accruals and provisions		402,865	430,878
Potential tax benefit		110,788	122,800
Total deferred tax assets not brought to account		8,425,679	8,490,678

Note 5 Other Liabilities

	Note	Consolidated Group	
		2017	2016
		\$	\$
Amount received in advance from customers			
- this is recorded as Other Liability as the goods have not been delivered by the end of FY2017. The revenue will be recorded in FY2018.		89,830	89,830

Note 6 Key Management Personnel Compensation

Refer to the remuneration report in the directors report for details of the remuneration paid or payable to each member of the Groups Key Management Personnel for the year ended 30 June 2017.

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

	Consolidated Group	
	2017	2016
	\$	\$
Short term employee benefits	1,018,627	746,475
Post employment benefits – contributions to superannuation including salary sacrifice	126,165	91,712
Long term benefits - Net increase in long service leave	18,192	33,912
Equity compensation benefits	5,372	130,866
Total compensation	1,168,356	1,002,965

Note 7 Auditors Remuneration

	2017	2016
	\$	\$
Remuneration of the auditor for:		
- auditing of the financial report	31,000	30,000
- reviewing of the financial report	2,500	2,500
- overseas auditors - China	17,500	-

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

Note 8 Earnings Per Share

(a) Reconciliation of earnings to profit and loss

	Consolidated Group	
	2017	2016
	\$	\$
Loss	(1,822,613)	(2,313,899)
Loss attributable to non controlling equity interest	(44,682)	(9,710)
Earnings used to calculate basic EPS	(1,867,295)	(2,323,609)
Earnings used in the calculation of dilutive EPS	(1,867,295)	(2,323,609)

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

	No.	No.
Weighted average number of shares	372,117,399	268,026,356
Weighted average number of options outstanding & shares issued by convertible notes	35,100,000	31,667,391
Weighted average number of ordinary shares outstanding during the year used in the calculation of EPS	407,217,399	299,693,747

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

Note 9 Cash and Cash Equivalents

		Consolidated Group	
	Note	2017	2016
		\$	\$
Cash at bank and in hand		1,234,243	1,306,865
		1,234,243	1,306,865
Reconciliation of cash			
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the financial position as follows:			
Cash and cash equivalents		1,234,243	1,306,865
		1,234,243	1,306,865

Note 9(a) Financial assets

Westpac Banking Corporation holds security over a cash deposit account (rental guarantee) of \$25,000 (2016:\$25,000) with effective interest rate of 3.0% (2016: 2.7%).

Note 10 Trade and Other Receivables

	Note	2017	2016
		\$	\$
CURRENT			
Trade receivables		797,751	285,109
Less provision for impairment	10 (a)	-	-
		797,751	285,109
Loans to related parties	(i) and 25(e)	-	37,000
Grant income receivable		375,000	370,000
		375,000	407,000
		1,172,751	692,109

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

Note 10(a) Provision For Impairment of Receivables

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

There has been no movement to the provision for impairment of receivables during the year (2016: \$ 0).

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

2017	Gross Amount \$	Past Due and Impaired	Past Due but Not Impaired (Days Overdue)				Within Internal Trade Limits \$
			<30	31-60	61-90	90>	
Trade and other receivables	797,751	-	-	-	-	-	797,751
Other receivables	375,000	-	-	-	-	-	375,000
Total	1,172,751	-	-	-	-	-	1,172,751
2016							
Trade and other receivables	285,109	-	-	-	-	-	285,109
Other receivables	407,000	-	-	-	-	-	407,000
Total	692,109	-	-	-	-	-	692,109

Note 11 Inventories

	2017	2016
	\$	\$
CURRENT		
At lower of cost and net realisable value		
Finished goods	897,336	498,830
	897,336	498,830

Note 12 Parent Entity Information

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

	2017	2016
	\$	\$
Current assets	2,103	883
Non-current assets	10,728,387	8,391,561
Total assets	10,730,490	8,392,444
Term liabilities	-	(650,000)
Total liabilities	-	(650,000)
Net assets	10,730,490	7,742,444
Issued capital	41,551,112	38,465,112
Share based payment reserve and options reserve	283,814	277,391
Accumulated losses	(31,104,436)	(31,000,059)
Total Equity	10,730,490	7,742,444
Profit/(Loss) after income tax	(133,762)	(864,622)
Other comprehensive income	-	-
Total comprehensive income / (loss)	(133,762)	(864,622)

During FY2017, \$650,000 of Convertible Notes issued by the parent company were converted into shares.

The parent entity is a guarantor under the Loan Facility Deed between Phoslock Pty Ltd and Link Traders (Aust) Pty Ltd. The Loan Facility is for a maximum amount of \$1,000,000 commenced on 15 December 2016 and matures on 30 November 2017. As at 30 June, 2017, the loan was drawn to \$1,000,000.

The parent entity had entered into a Payment Indemnity Deed in respect of an accounts receivable that was sold to Link Traders (Aust) Pty Ltd under a factoring arrangement. The arrangement commenced on 13 June 2017 and end on 22 September 2017.

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

(b) Controlled Entities of the Parent Entity

	Country of Incorporation	Percentage Owned (%)*	
		2017	2016
Subsidiaries of Phoslock Water Solutions Limited:			
Phoslock Pty Ltd	Australia	100	100
Phoslock Technologies Pty Ltd	Australia	100	100
Phoslock International Pty Ltd	Australia	100	100
Phoslock Water Solutions UK Co Ltd	United Kingdom	100	100
Phoslock Europe GmbH	Switzerland	60	60
Phoslock (Shanghai) Water Solutions Limited	China	100	100
Phoslock (Changxing) Water Solutions Limited	China	100	N/A
Phoslock Beijing Ecological Engineering Technology Co., Ltd	China	100	N/A

Phoslock (Changxing) Water Solutions Ltd was incorporated on 17 November, 2016.

Phoslock Beijing Ecological Engineering Technology Co., Ltd was incorporated on 6 June, 2017

Note 13 Plant and Equipment

	2017	2016
	\$	\$
Plant and equipment, at cost	1,342,631	304,546
Less accumulated depreciation	(304,538)	(247,859)
	1,038,093	56,687

(a) Movements in Carrying Amounts

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

	Plant and Equipment	Total
	\$	\$
Balance at 1 July 2016	56,687	56,687
Additions	1,038,085	1,038,085
Disposals	-	-
Depreciation Expense	(56,679)	(56,679)
Balance at 30 June 2017	1,038,093	1,038,093
Balance at 1 July 2015	106,635	106,635
Additions	15,036	15,036
Disposals	-	-
Depreciation Expense	(64,984)	(64,984)
Balance at 30 June 2016	56,687	56,687

Note 14 Intangible Assets

	2017	2016
		\$
Trademarks and licences		
Cost	4,159,660	4,159,660
Impairment	(4,159,660)	(4,159,660)
Net carrying value	-	-
Development costs		
Cost	323,740	323,740
Impairment	(323,740)	(323,740)
Net carrying value	-	-
Total intangibles	-	-

There has been no movement in the intangible assets for both 2017 and 2016 as such no movement schedule has been presented. There is no amortisation on intangible assets for both 2017 and 2016 financial years as the intangibles have been fully impaired in 2011 (see following note).

Impairment of Trademarks & Licences and Development Costs as at 30 June 2017

In 2011, the directors resolved to impair the carrying value of company's Intellectual Property (\$2,092,554) based on value in use calculation. The company's Intellectual Property is core to the Phoslock business. The directors believe that the carrying value of the Intellectual Property does not affect the Phoslock business and that nothing has changed to the length of protection afforded to the company via its patents and trademarks.

Note 15 Other Assets

	2017	2016
	\$	\$
CURRENT		
Prepayments	107,430	62,322
VAT deposit guarantee	34,171	35,568
	141,601	97,890

Note 16 Trade and Other Payables

	2017	2016
	\$	\$
CURRENT		
Trade payables	281,438	564,784
Sundry payables and accrued expenses	49,005	32,974
	330,443	597,758

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

Note 17 Financial Liabilities

	Note	2017	2016
		\$	\$
CURRENT			
Convertible Notes (unsecured) with related parties		-	650,000
Related party borrowings - loan (unsecured)		1,000,000	-
Related party borrowings - debtor factoring (secured)		500,000	-
Related party subordinated loan (unsecured)		292,241	293,549
		1,792,241	943,549

The Convertible Notes (unsecured), borrowings and sub-ordinated loan relating to related parties as disclosed in Note 25. \$0.65m Convertible Note has been converted into 14.1 million shares. Refer cashflow non cash financing note (Note 23).

Note 18 Provisions

	2017	2016
	\$	\$
CURRENT		
Employee Entitlements		
Opening Balance at 1 July	390,330	323,182
Additional provisions	27,465	92,668
Amounts used	(65,661)	(25,520)
Balance at 30 June	352,134	390,330

	2017	2016
	\$	\$
NON CURRENT		
Employee Entitlements		
Opening Balance at 1 July	7,572	32,954
Additional provisions	1,135	(25,382)
Amounts used	-	-
Balance at 30 June	8,707	7,572

	2017	2016
	\$	\$
Analysis of Total Provisions		
Current	352,134	390,330
Non-current	8,707	7,572
	360,841	397,902

Current employee entitlements

During FY2017 the Company undertook 2 buy-backs of annual leave. Each employee with more than 200 hours of accrued leave were entitled to sell-back 80 hours of annual leave at each buy back. The Board approved the buy-backs to reduce the amount of accrued employee entitlements.

Non-current employee entitlements

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

Note 19 Issued Capital

	2017	2016
	\$	\$
413,084,403 fully paid ordinary shares (2016: 362,953,968)	41,551,112	38,465,112
	41,551,112	38,465,112

(a) Ordinary Shares

	2017	2017	2016	2016
	No.	\$	No.	\$
At the beginning of reporting year	362,953,968	362,953,968	250,851,616	32,112,271
Shares issued during the year:				
- 5 August 2015 - shares issued under Convertible Security			3,333,333	90,000
- 8 September 2015 - shares issued under Convertible Security			3,650,793	94,916
- 8 September 2015 - shares issued under to Consultant			1,000,000	26,000
- 19 November 2015 - sale of collateral shares under Convertible Security			-	128,000
- 23 December 2015 - shares issued under a Placement			1,500,000	60,000
- 14 January 2016 - shares issued under a Placement			8,500,000	340,000
- 12 May 2016 - shares issued under a Placement			20,000,000	1,400,000
- 8 June 2016 - shares issued under Share Purchase Plan			22,318,506	1,562,295
- 17 June 2016 - shares issued for Conversion of \$1.4m Convertible Notes			32,880,435	1,400,000
- 20 June 2016 - shares issued under a Placement			18,919,285	1,324,350
- 18 July, 2016 - conversion of options	5,000,000	265,000		
- 9 May, 2017 - conversion of options	1,000,000	71,000		
- 15 May, 2017 - issue of shares under a Placement	15,000,000	1,050,000		
- 31 May, 2017 - issue of shares under a Placement	15,000,000	1,050,000		
- 31 May, 2017 - shares issued under Conversion of \$0.65m Convertible Notes	14,130,435	650,000		
Transaction costs arising from Share Placement				(72,720)
Balance at the end of the year	413,084,403	41,551,112	362,953,968	38,465,112

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 24 Share-based Payments and the Remuneration Report.
- (ii) For information relating to share options issued to key management personnel during the financial year, refer to Note 24 Share-based Payments and the Remuneration Report.

Note 19 Issued Capital continued

(c) Capital Management

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

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

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

Group equity increased during the year by \$3.0 million from a share placement (\$2.1 million); conversion of unlisted options (\$0.3 million) and conversion of Convertible Notes. The gearing ratio's for the year ended 30 June 2017 and 30 June 2016 are as follows:

	Note	2017	2016
		\$	\$
Total borrowings	16, 17	2,122,684	1,541,307
Less cash and cash equivalents	9	(1,234,243)	(1,306,865)
Net debt		888,442	234,442
Total equity		1,935,669	648,342
Total assets		4,509,024	2,677,381
Gearing ratio		31%	27%

Note 20 Reserves

(a) Foreign Currency Translation Reserve

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

(b) Option Reserve

The option reserve records items recognised as expenses on valuation of employee share options and options issued to third parties. 35,000,000 options were issued to employees and consultants during FY2017 plus 30,000,000 options were issued during FY2017 to China Environmental Corporation Pty Ltd as part of the terms of a Share Placement. An option expense of \$20,991 was recorded for FY 2017 for share option expenses issued to employees and an additional \$14,817 for options issued to third parties. This amount of \$35,808 was also credited to the Option Reserve (see Consolidated Statement of Changes in Equity). \$29,395 was transferred from the Option Reserve to Retained Earnings for options which had expired or exercised (FY2016:\$0).

Note 21 Commitments

	2017	2016
	\$	\$
a) Finance Lease Commitments		
The Group does not have any finance lease commitments		
b) Operating Lease Commitments		
Non-cancellable operating lease		
Payable - minimum lease payments		
- not later than 12 months	217,669	43,401
- between 12 months and 5 years	493,827	-
- greater than 5 years	-	-
	711,496	43,401

One of the non-cancellable leases relates to the leased Sydney office premise expiring 30 September, 2019. Rent is payable monthly in advance.

The other non-cancellable leases relates to the leased Shanghai office premise expiring 28 February, 2018. Rent is payable monthly in advance.

The other non-cancellable leases relates to the leased Changxing factory premise expiring 28 February, 2022. Rent is payable annual in advance. Some rent is rebatable from the Changxing local government if certain sales revenue targets are met.

Note 22 Segment Reporting

Segment Information

Identification of reportable segments

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

The Group is managed primarily on the basis of geographical areas – Australia/NZ, Europe/UK, US/Canada/Brazil and China. 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, US/Canada/Brazil and China.

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 Group's financial statements.

Corporate charges are allocated to reporting segments based on the segments' overall proportion of revenue generation within the Group. The Board of Directors believes this is representative of likely consumption of head office expenditure that should be used in assessing segment performance and cost recoveries.

Inter-segment loans payable and receivable are initially recognised at the consideration received net of transaction costs and then revalued to the exchange rate used at the end of the current accounting period.

Segment assets

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

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

Segment liabilities

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

Unallocated items

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

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

Note 22 Segment Reporting continued

(i) Segment performance

	Australia/NZ	Europe/UK	US / Canada / Brazil	China	Total	Eliminations	Total
Twelve months ended 30 June 2017							
Revenue							
External sales	101,851	623,033	2,893,103	207,419	3,825,406	-	3,825,406
Inter-segment sales	328,538	-	-	-	328,538	(328,538)	-
Other revenue	377,906	-	-	-	377,906	-	377,906
Total segment revenue	808,295	623,033	2,893,103	207,419	4,531,850	(328,538)	4,203,312
Reconciliation of segment revenue to group revenue							
Unallocated interest and other income							23,994
Total group revenue							4,227,306
Segment (loss)/profit before tax	(366,958)	26,708	582,586	(1,107,339)	(865,002)	-	(865,002)
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					-	-	(56,679)
Unallocated items:							
- Corporate charges							(675,711)
- Finance costs							(225,222)
Loss before income tax from continuing operations							(1,822,613)
Twelve months ended 30 June 2016							
Revenue							
External sales	307,337	257,648	1,118,317	47,347	1,730,649	-	1,730,649
Inter-segment sales	145,522	43,707	-	-	189,229	(189,229)	-
Other revenue	329,062				329,062	-	329,062
Total segment revenue	781,921	301,355	1,118,317	47,347	2,248,940	(189,229)	2,059,711
Reconciliation of segment revenue to group revenue							
Unallocated interest and other income							136,530
Total group revenue							2,196,241
Segment (loss)/profit before tax	(112,358)	(14,514)	(153,650)	(439,049)	(719,571)	-	(719,571)
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					-	-	(64,984)
Unallocated items:							
- Corporate charges							(675,521)
- Finance costs							(853,823)
Loss before income tax from continuing operations							(2,313,899)

(ii) Segment assets

	Australia/NZ	Europe/UK	US / Canada / Brazil	China	Total	Eliminations	Total
30 June 2017	\$	\$	\$	\$	\$	\$	\$
Segment assets	5,724,549	251,459	-	2,423,493	8,399,502	(3,890,476)	4,509,026
Unallocated assets - intangibles							-
Total group assets							4,509,026
30 June 2016	\$	\$	\$	\$	\$	\$	\$
Segment assets	3,409,056	202,408	-	130,022	3,741,486	(1,064,105)	2,677,381
Unallocated assets - intangibles							-
Total group assets							2,677,381

(iii) Segment liabilities

	Australia/NZ	Europe/UK	US / Canada / Brazil	China	Total	Eliminations	Total
30 June 2017	\$	\$	\$	\$	\$	\$	\$
Segment liabilities	2,255,608	329,356	-	11,167	2,596,132	(22,776)	2,573,356
Unallocated liabilities							-
Total group liabilities							2,573,356
30 June 2016	\$	\$	\$	\$	\$	\$	\$
Segment liabilities	1,725,220	342,011	-	(6,845)	2,060,386	(31,347)	2,029,039
Unallocated liabilities							-
Total group liabilities							2,029,039

(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 66% of external revenue (2016: 39%). This customer is purchasing product for three separate projects.

Note 23 Cash Flow Information

	2017	2016
Reconciliation of net cash from operating activities to operating profit after income tax	\$	\$
Net loss after income tax	(1,822,613)	(2,313,899)
Cash flows excluded from loss attributable to operating activities		
Depreciation expense	56,679	64,984
Shares and Option expense	35,808	202,982
Interest on Convertible Notes- amortised cost	-	334,031
FV movement of derivative liability	-	(121,977)
Issue of shares to consultant	-	26,000
Accrued interest paid from prior year	-	(48,207)
Change in assets/liabilities		
(Increase)/decrease in trade and term receivables	(480,642)	(69,550)
(Increase)/decrease in prepayments and other assets	(43,711)	(34,740)
(Increase)/decrease in inventories	(398,506)	(358,292)
Increase/(decrease) in trade payables and accruals	(267,314)	90,218
Increase/(decrease) in other liabilities	-	89,830
Increase/(decrease) in provisions	(37,061)	41,766
Cash flow used in operating activities	(2,957,360)	(2,096,853)
Non-Cash Financing Activities		
\$0.65 million of Convertible Notes were converted to 14.1 million shares (Note 19)		

Note 24 Share-Based Payments

At 30 June 2017 the Group has the following share-based payment scheme:

Phoslock Water Solutions Limited Employee Options Plan

The Employee Plan is designed as an incentive for senior managers and above. Under the plan, participants are granted options which only vest if certain performance standards are met. On 20 June, 2016, 13.6 million share options were granted to 13 employees and consultants who contribute to the Phoslock business, with a vesting condition to be employed or engaged by PWS by 1 July, 2017 and exercisable by 30 September, 2017. The exercise price is 9 cents.

On 16 June, 2017, Shareholders approved 65 million performance share options with a grant date of 10 April, 2017, all subject to sales revenue performance criteria before 30 June, 2019. 30 million performance options were granted to senior Chinese water executives who can assist PWS business in China; 20 million performance options were granted to Phoslock Beijing executives; 15 million performance options were granted to 13 PWS employees and consultants who contribute to the Phoslock business exercisable by 20 December, 2019. The exercise price is 10.5 cents. All of these options are performance options and can only vest if performance criteria is met. The details of the performance criteria is contained in the General Meeting Notice for the 16 June, 2017 meeting.

Under the plan, where a participant ceases employment prior to the vesting of their share options, the share options are forfeited unless cessation of employment is due to death.

All options granted are for ordinary shares in Phoslock Water Solutions Limited which confer a right of one ordinary share for every option held. The options hold no voting or dividend rights and are not transferable.

The following is a table reconciling the movements of share options during the year ended 30 June 2017:

	2017		2016	
	Number of options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
		\$		\$
Outstanding at the beginning of the year	28,100,000	0.078	14,500,000	0.100
Granted	65,000,000	0.082	18,600,000	0.082
Vesting conditions not met	-	-	(5,000,000)	0.100
Exercise	(6,000,000)	0.059	-	-
Vesting options not exercised	-	-	-	-
Outstanding at year-end	87,100,000	0.100	28,100,000	0.078
Exercisable at year-end	8,500,000	0.083	14,500,000	0.060

The options outstanding at 30 June 2017 had a weighted average exercise price of \$0.083 and a weighted average expected life of 2 years.

Options that are not exercised by the designated expiry date automatically expire. Options will be forfeited when specified conditions attached to the options are not met.

All share options were valued at grant date using a Black-Scholes option-pricing and Binomial Call Option methodology.

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

Note 25 Related Parties

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

Information in respect of parent entity and subsidiaries are contained in Note 12.

	2017	2016
	\$	\$
(a) Key Management Personnel Compensation		
Details of key management personnel compensation are included in Note 6 and the Remuneration Report.		
Transaction with related parties:		
(b) Relatives of Specified Executives		
Services provided on a normal commercial basis by parties related to specified executives		
Margaret Schuitema – part time employment (1)	69,230	60,000
Yolanda Winks – part time employment (2)	34,616	30,000
Ben Schuitema – part time employment (1)	31,495	24,510
Martin Schuitema – part time employment (1)	39,434	19,500
(c) Transactions with related parties		
Link Traders (Aust) Pty Ltd – rental costs for Sydney Office (3)	97,138	90,339
Link Traders (Aust) Pty Ltd – interest on loans (3) (7) (6)	212,618	519,579
Sail Ahead Pty Ltd – interest on loans (4) (7)	1,825	37,602
Serenety Holdings Pty Ltd – investor relations (8)	54,000	50,000
Contribution to self-managed superannuation funds managed by related parties (1) (3)	75,866	72,404
(d) Transactions with other related parties		
Bentophos GmbH - purchase of goods & services	15,724	18,113
Bentophos GmbH - subordinated loan payments to Phoslock Europe GmbH	-	-
Bentophos GmbH is a major business partner and currently holds 40% interest in subsidiary Phoslock Europe GmbH		
(e) Balances with related parties		
Robert Schuitema - loan from Phoslock Pty Ltd to purchase Convertible Notes or PHK shares (5)	-	10,000
Link Traders (Aust) Pty Ltd – Convertible Notes (3) (5)	-	650,000
Link Traders (Aust) Pty Ltd – loan to Phoslock Pty Ltd (3)	1,500,000	-
Bentophos GmbH - subordinated loan to Phoslock Europe GmbH	292,241	293,549

(1) related party of Robert Schuitema

(2) related party of Andrew Winks

(3) Laurence Freedman is a director of this company

(4) Robert Schuitema is a director of this company

(5) Convertible Notes issued by Phoslock Water Solutions Ltd convertible/ extended to 30 June 2017 and converted into shares; interest rate – 15%

(6) interest paid on loans, debt factoring to Phoslock Pty Ltd (interest rate 15%-20%) and Convertible Notes to Phoslock Water Solutions Ltd (interest rate 15%)

(7) interest paid on loans to Phoslock Pty Ltd (interest rate 20%) and Convertible Notes to Phoslock Water Solutions Ltd (interest rate 15%)

(8) related party of Laurence Freedman

Note 26 Events Subsequent To Balance Date

No material events subsequent to Balance Date.

Note 27 Financial Risk Management

(a) Financial Risk Management Policies

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

(i) Financial Risk Exposure Management

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

Interest rate risk

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

Foreign currency risk

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

Liquidity risk

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

Credit risk

Credit risk is the exposure to financial loss by the consolidated entity if a customer fails to meet its contractual obligation and arises from the consolidated entity's trade receivables. During the year the consolidated group entered into a factoring arrangements with a related party for the accounts receivable of a major customer.

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

(b) Financial Instruments**(ii) Financial Instrument Composition and Maturity Analysis**

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

Fixed Interest Rate Maturing							
	Weighted Average Effective Interest Rate	Floating Interest Rate	Within 1 Year	1 to 5 Years	Over 5 Years	Non- interest bearing	Total
2017	%	\$	\$	\$	\$	\$	\$
Financial Assets							
Cash and cash equivalents	1.5%	1,234,243	-	-	-	-	1,234,243
Long term deposits	3.0%	25,000					25,000
Trade and other receivables	0%	-	-	-	-	1,172,751	1,172,751
Total Financial Assets		1,259,243	-	-	-	1,172,751	2,431,994
2016	%	\$	\$	\$	\$	\$	\$
Financial Assets							
Cash and cash equivalents	1.5%	1,306,865	-	-	-	-	1,306,865
Long term deposits	2.7%	25,000					25,000
Trade and other receivables	0%	-	-	-	-	692,109	692,109
Total Financial Assets		1,331,865	-	-	-	692,109	2,023,974

Note 27 Financial Risk Management continued

(b) Financial Instruments (continued)

Fixed Interest Rate Maturing							
	Weighted Average Effective Interest Rate	Floating Interest Rate	Within 1 Year	1 to 5 Years	Over 5 Years	Non- interest bearing	Total
2017	%	\$	\$	\$	\$	\$	\$
Financial Liabilities							
Trade and sundry payables	0%	-	-	-	-	330,443	330,443
Borrowings	15-18%	-	1,500,000	-	-	-	1,500,000
Subordinated Loan	0%	-	-	-	-	292,241	292,241
Total Financial Liabilities		-	1,500,000	-	-	622,684	2,122,684
2016	%	\$	\$	\$	\$	\$	\$
Financial Liabilities							
Trade and sundry payables	0%	-	-	-	-	597,758	597,758
Convertible Notes	15%	-	650,000	-	-	-	650,000
Subordinated Loan	0%	-	-	-	-	293,549	293,549
Total Financial Liabilities		-	650,000	-	-	891,307	1,541,307

Financial liabilities are expected to be paid as follows:

	2017	2016
Financial liabilities are expected to be paid as follows:	\$	\$
Less than 6 months	1,830,443	597,758
6 months to 1 year	-	650,000
1-5 years	292,241	293,549
	2,122,684	1,541,307

(ii) Net Fair Values

The net fair values of other assets and liabilities approximate their carrying value.

(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 2017, 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:

	2017	2016
	\$	\$
Change in profit		
- Increase in interest rate by 1%	12,342	13,069
- Decrease in interest rate by 1%	(12,342)	(13,069)
Change in equity		
- Increase in interest rate by 1%	12,342	13,069
- Decrease in interest rate by 1%	(12,342)	(13,069)

Foreign Currency Risk and Sensitivity Analysis

As at 30 June 2017, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the US Dollar on US\$ sales (assumed to be 70% of total sales); 70% (2016) with all other variables remaining constant is as follows:

	2017	2016
	\$	\$
Change in profit		
- Improvement in AUD to USD by 10%	200,834	90,859
- Decline in AUD to USD by 10%	(200,834)	(90,859)
Change in equity		
- Improvement in AUD to USD by 10%	200,834	90,859
- Decline in AUD to USD by 10%	(200,834)	(90,859)

As at 30 June 2017, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the Euro on Euro sales (assumed to be 10% of total sales) 10% (2016) with all other variables remaining constant is as follows:

	2017	2016
	\$	\$
Change in profit		
- Improvement in AUD to Euro by 10%	25,630	11,595
- Decline in AUD to Euro by 10%	(25,630)	(11,595)
Change in equity		
- Improvement in AUD to Euro by 10%	25,630	11,595
- Decline in AUD to Euro by 10%	(25,630)	(11,595)

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

Note 28 Contingent Liabilities

The group has no contingent liabilities. (2016: NIL)

Director's Declaration



In the Directors' opinion:

1) the consolidated financial statements and notes, as set out on pages 30 to 65, and the remuneration report on pages 17 to 22 of the directors' report, are in accordance with the Corporations Act 2001 including:

- (a) giving a true and fair view of the financial position as at 30 June 2017 and of the performance for the financial year ended on that date of the Group; and
- (b) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

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

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

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

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



Mr Robert Schuitema

Managing Director

Dated this 25th day of August 2017
Sydney



Hon Pam Allan

Non-Executive Director - Chairman of Audit Committee

Dated this 25th day of August 2017
Sydney

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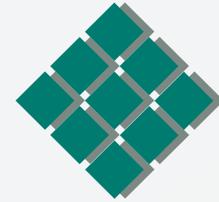
Web: www.phoslock.com.au

Independent Auditor's Report

W. W. Vick & Co.

Chartered Accountants

ABN 14 568 923 714



TO THE MEMBERS OF PHOSLOCK WATER SOLUTIONS LIMITED AND CONTROLLED ENTITIES

Opinion

We have audited the financial report of Phoslock Water Solutions Limited (the Company) and its subsidiaries (together the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

- a) giving a true and fair view of the Group's financial position as at 30 June 2017, and of its financial performance for the year then ended; and
- b) complying with Australian Accounting Standards and the Corporations Regulation 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be on the same terms if given to the directors as at the time of this auditor's report.

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

Material uncertainty regarding continuation as a going concern

We draw attention to Note 1 (a) in the financial report, which indicates that the consolidated entity incurred a net loss of \$1,822,613 during the year ended 30 June 2017, has accumulated losses totalling \$39,821,703, and net cash used in operating activities of \$2,957,360. As stated in Note 1 (a), these events or conditions, along with other matters as set forth in Note 1 (a), indicate that a material uncertainty exists that may cast significant doubt on the consolidated entities' ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the "Material Uncertainty Related to Going Concern" section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Fayworth House, Suite 403, 4th floor, 379-383 Pitt Street, Sydney, NSW 2000
 PO Box 20037, World Square, NSW 2002
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 scheme approved
 under Professional
 Standards Legislation

Independent Auditor's Report (continued)

W. W. Vick & Co.

KEY AUDIT MATTER

Revenue Recognition

Refer Note 1 (d) Revenue and Other Income and Note 2 Revenue

Revenue from the sale of goods is recognised at the moment when the significant risks and rewards of ownership have been passed to the buyer.

This area is a key audit matter due to the nature of revenue arrangements, the systems and processes used to transact sales and the importance of the revenue balance to stakeholders.

Auditing standard ASA 240 requires us to obtain reasonable assurance that the financial report is free from material misstatement regarding revenue recognition.

Revenue is an essential element of how the Group measures its performance upon which management are incentivised. The Group focuses on revenue as a key performance measure, which could create an incentive for revenue to be recognised before the risks and rewards have been transferred.

Overseas Subsidiaries

Refer Note 12(b) – Controlled Entities of the Parent Entity and Note 22 – Segment Reporting

The Group has 2 subsidiaries incorporated in China. These are considered risk for the following reasons:

- Different laws and regulations in China and a different tax jurisdiction to the Australian head entity
- There is also a risk that local accounting policies may not comply with International Financial Reporting Standards.

Related Party Loans

Refer to Note 25 Related Parties

The group has obtained significant funding from a related party Link Traders (Aust.) Pty Limited. The loans have been provided for working capital and include debt factoring arrangements for the Group.

This is considered a risk as there is potential that the funding may not be appropriately recorded and the transactions not being at arm's length.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

Our procedures included, among others:

- We considered the appropriateness of the Group's revenue recognition accounting policies;
- We also considered the accuracy of the Group's description of the accounting policy related to revenue and whether revenue is adequately disclosed throughout the financial statements.
- We analytically reviewed sales, cost of goods sold, gross margin, and inventory levels by comparing to sale price, volume sold, and movement of stock;
- We assessed transactions taking place either side of the balance sheet date to evaluate whether revenue was recognised in the correct period; and
- We have reviewed all revenue transactions administered by the Australian Parent entity against the shipment/delivery documents and invoices. The revenue as recorded has occurred during the year. Revenue originated in China has been substantially tested by our Component Auditors.

Our procedures included, among others:

- We sent ASA 600 checklists and questionnaires to the Chinese auditor to ensure that the Chinese audit is conducted in accordance with International Auditing Standards;
- We requested confirmation that the Chinese auditor was independent of Phoslock Water Solutions Limited Group;
- We reviewed selected workpapers and responses to questionnaires;
- We sent follow up questions and discussed the work performed by the Chinese auditor; and
- We obtained audit clearance from the Chinese auditor of the reporting package and relevant disclosures for the year ended 30 June 2017.

Our procedures included, among others:

- We obtained a list of all related party transactions from the Directors;
- We obtained confirmations from the Directors that transactions were complete;
- We reviewed terms and conditions of related party transactions and compared to commercial terms;
- We reviewed compliance of terms of the related party loans and debt factoring arrangement; and
- We determined that related party transactions are adequately disclosed throughout the financial statements.

Independent Auditor's Report (continued)

W. W. Vick & Co.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon. In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

The following other information is expected to be received after the date of the auditor's report; Chairman's report, Managing Director's report and Corporate Governance Statement. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Directors for the Financial Report

The directors of the Company responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001, and for such internal control as directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 17 to 22 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Phoslock Water Solutions Ltd and Controlled Entities., for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

4th Floor
379-383 Pitt Street
Sydney NSW 2000

Dated: 25 August 2017

W. W. Vick & Co.
Chartered Accountants



Phillip Jones - Partner

Shareholder Information

The shareholder information set out below was applicable as at 26 September, 2017

A. Distribution of equity securities

Analysis of number of equity holders by size of holding:

Spread of Holding	Number of Holders	Number of Shares	% of Total Issued Capital
1 to 1,000	89	28,090	0.01%
1,001 to 5,000	222	495,865	0.11%
5,001 to 10,000	248	2,080,998	0.46%
10,001 to 100,000	607	16,838,675	3.70%
100,001 to 100,000,000	392	436,200,846	95.72%
Total	1,558	455,644,474	100.00%

The number of shareholders holding less than a marketable parcel (\$500) of shares is 166 (2,778 shares).

B. Voting Rights

At a general meeting of shareholders:

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

C. Equity Security Holders

The names of the twenty largest quoted equity security holders are listed below. Shareholder totals including direct holdings and known related parties.

Shareholder (including Related Parties)	Number of Shares	% of Total Issued Capital
Link Traders (Aust) Pty Ltd	88,208,535	19.36%
China Environmental Construction/ZZL Pty Ltd	30,000,000	6.58%
Evan Clucas & Leanne Weston	19,436,376	4.27%
Sail Ahead Pty Ltd	16,495,948	3.62%
Hongmen Pty Ltd	15,067,412	3.31%
Lesweek Pty Ltd	10,631,263	2.33%
Newvest Pty Ltd	9,569,113	2.10%
Quizete Pty Ltd	9,500,000	2.08%
Fraser Enterprises - Fund	6,010,344	1.32%
Kyle Passmore	6,000,000	2.31%
David Colbran	5,950,000	2.29%
Ludgate Environmental Fund Ltd	5,944,426	1.30%
Nigel Traill	5,506,334	1.21%
Sharky Holdings Pty Ltd	5,400,000	1.19%
Probus Pty Ltd	4,838,701	1.06%
Andrew Darney	4,700,000	1.81%
Mario Spiranovic	4,522,932	0.99%
Paul & Lorraine Cazyer	4,333,776	0.95%
Graham Gibson	4,117,774	0.90%
Ms Yu	4,000,000	0.88%
Total	260,232,934	59.86%
Total Shares Issued	455,644,474	100.00%

D. Substantial Shareholders

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

Shareholder	Number of Shares	% of Total Issued Capital
Link Traders (Aust) Pty Ltd	88,208,535	19.36%
China Environmental Construction/ZZL Pty Ltd	30,000,000	6.58%
Total	118,208,535	25.94%

E. Unquoted Securities

Substantial option holders (> 5% of options held) in the Company are listed below:

	Number of Options	Number of Option Holders
Total number of unquoted options outstanding as at 26 September, 2017	67,500,000	32
Option holder		
China Environmental Construction Pty Ltd	30,000,000	1
Phoslock Beijing Employees	20,000,000	15
PWS Employees	15,000,000	15

Important Note to Shareholders

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

PHOSLOCK[®]

Phoslock Water Solutions Ltd.
and Controlled Entities

风斯乐水治理有限公司

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