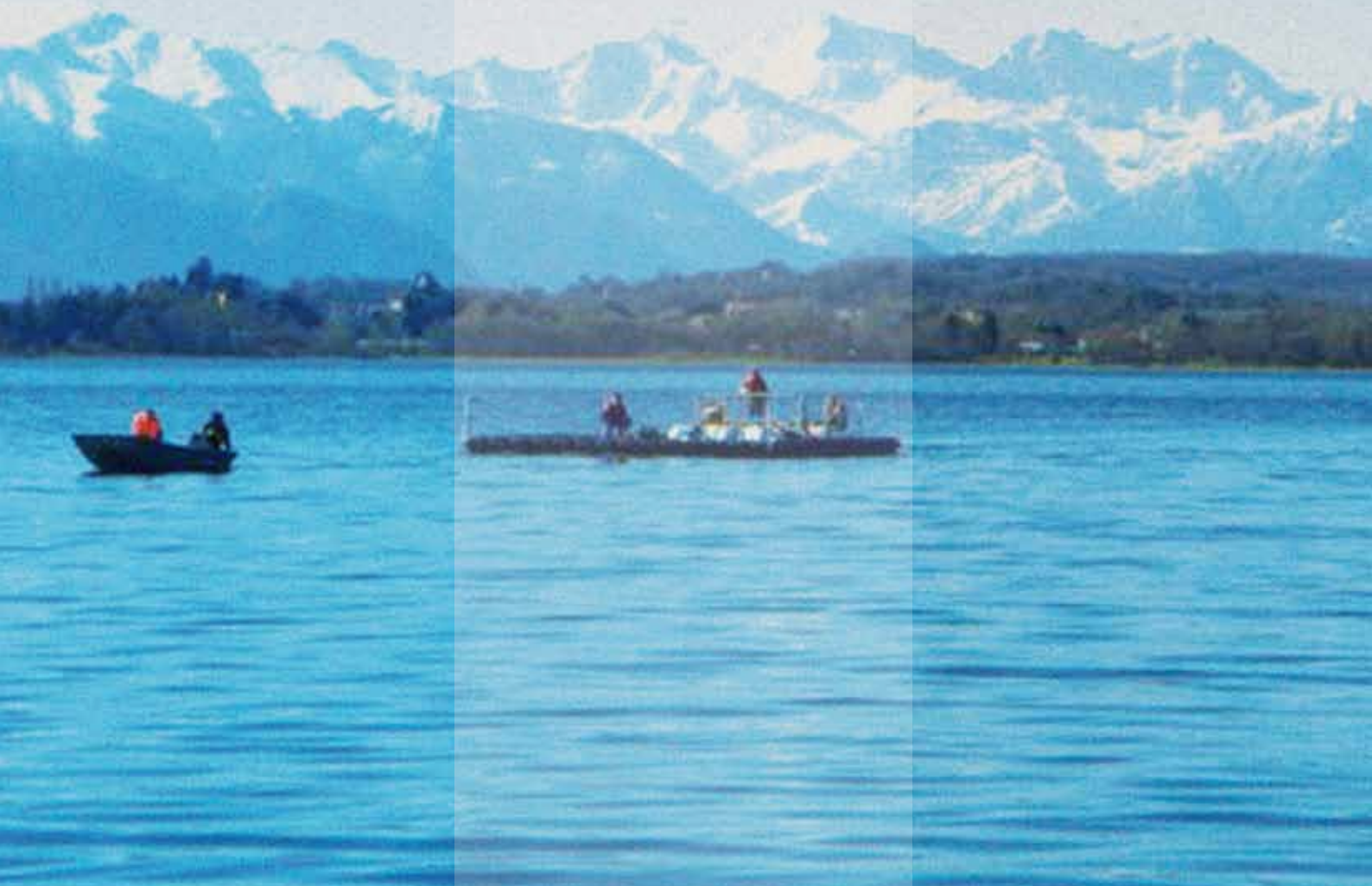




Phoslock Water Solutions Ltd.

annual report 2009



Corporate Directory

Directors

Dr David Garman

Chairman

Robert Schuitema

Managing Director

The Hon. Pam Allan

Non Executive Director

Management

Robert Schuitema

Chief Financial Officer & Company Secretary

Nigel Traill

General Manager Europe, Africa & The Middle East

Eddie Edmunds

Chief Operating Officer

Andrew Winks

General Manager Operations

Dr Sarah Groves

General Manager Technical

Auditors

W H K Horwath

Level 16, William Buck Centre
120 Edward Street
Brisbane QLD 4000

Share Register

Computershare Investor Services Pty Limited

Level 3, 60 Carrington Street
Sydney 2000
Ph: 02 8234 5000 Fax: 02 8234 5050
Email: web.queries@computershare.com.au

Website: www.phoslock.com.au

ASX Listing Code: PHK

Offices

Sydney – Head Office

3/81 Frenchs Forest Road
Frenchs Forest NSW 2086
Ph: +61 2 9453 0455 Fax: +61 2 9453 2693
Email: enquiries@phoslock.com.au

Europe – Regional Office

Dupourstr. 31
8008 Zurich
Switzerland

Europe – Technical Office

Institute Dr Nowak
Mayenbrook 1
Ottersberg 28870
Germany

China

No-2 of Lower Part of Lingangxincun
Western Station, Kunming City
Yunnan Province, PRC PC: 650033

South Africa (Phoslock Africa Pty Ltd)

81 Quintin Brant Street
Block E Apex Corporate Park
Persequor Technopark
Pretoria, South Africa

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Phoslock being applied to a reservoir in Scotland

Chairman's Report



We have just completed a year where the Company has finished in a stronger position, both financially and operationally, despite the global financial turbulence. The performance of the Company is not fully reflected in this year's Income Statement as this does not show the major increase to our sales pipeline and the advancement of large projects (greater than 100 tons) and major projects (greater than 1,000 tons) towards project approvals and sales.

Your company is currently working with major water authorities in Australia, New Zealand, South East Asia, China, Europe and UK and North America on many projects. While some are one-off sales others are looking to incorporate Phoslock into their standard operating procedures whereby Phoslock is scheduled to be used as part of normal ongoing operations.

Our core product "Phoslock" is entering its fourth year of commercial sales. The Company continues to build a strong track record of past applications. The detailed reports on these applications along with a library of technical reports on the product are valuable marketing tools.

New customers, particularly large water authorities, undertake significant due

diligence on a "new" product like Phoslock before it is approved for use in their water bodies. The due diligence often includes trial applications to a smaller water body which are monitored over an extended period. Increasingly we have seen our applications produce results that more than bear out our predictions. Environmental authorities have been provided with a large array of independently derived data to meet their demands for environmental safety re-assurance.

A number of large and major projects in our sales pipelines are coming to the end of their trials and the Company is confident that we will see a strong conversion of trials into full scale large and major applications in both this financial year and beyond.

There have been many improvements in your Company's operations this year with significant reductions in overheads, improved sales, more demonstration and trial projects and an increased pipeline of projects both in number and potential value.

The efforts to turn prospects into sales has been a key focus for the Board and staff with everyone giving much more than is usually expected in these situations. The enthusiasm and professionalism of all is strongly recognised by the Board.

We have survived the Global Financial Crisis when many small companies have folded. This is in no small part due to the support of major shareholders and loyalty of staff. The Company has raised new equity in the last 12 months via a placement to sophisticated investors who qualify under section 708 of the Corporations Act 2001 (Cth). The Board has looked at other equity raising options (share purchase plan and/or rights issue), however the six week time lag between announcing an issue and receiving the funds materially exposes the Company. The Board was unwilling to risk using these options. Underwriting a share purchase plan and/or rights issue is a very expensive option for a company of the size of PWS.

The underlying issue of water quality deteriorating around the world is paramount. Extreme weather conditions are accentuating the eutrophication processes and increasing demand for our product. The level of new enquiries is a strong indicator of where our business could be in several years time.

The PWS Board and management recognise that all of our efforts will be inadequate if we are not providing shareholders with a reasonable return on their investment. This has been a year of turn-around and advancement for the Company with the Board projecting much improved results for the coming year.

Dr David Garman
Chairman

5 October, 2009



Phoslock application to a German Lake

Managing Director's Report



A summary of the Company performance for FY2008/09 reads as follows:

- Financial Performance – improving but has not yet reached cashflow break-even despite major reductions in expenditure.
- Financial Position – net assets of \$4.2m with adequate liquidity. The Company maintains very a conservative strategy towards retaining adequate liquidity and low levels of leverage – we are currently debt free.
- Sales – improving with a large pipeline of future projects for both large (greater than 100 tons) and major (greater than 1,000 tons). Conversion of these into sales revenue in FY2009/10 is likely to improve.
- Sales Coverage – is very strong in Australasia, Europe and UK. Canada is developing well but there needs to be more development in China, United States and parts of South East Asia.
- Production – the factory is operated in China to match anticipated demand. Manufacturing is presently being undertaken to increase inventory levels to match forecast orders over the next 6 to 9 months.
- Employees – a small but strong group of experienced professionals with specific areas of focus on the high priority technical areas.
- Shareholders – a loyal base of shareholders who have supported the Company for a number of years; the top 20 shareholders account for approximately 47% of PWS shares.

Financial Performance for FY 2008/09

The financial performance for FY 2008/09 was a strong improvement over the preceding year, however it was significantly short of the level of performance which the company is capable of producing.

Revenues for FY 2008/09 were up 29% to A\$1.1 million whilst the operating loss for the year was a 23% improvement to A\$2.6 million. The reason for the reduced loss was higher revenues (up by \$244,094); lower expenses (reduced by \$949,632) and increased non-cash items (up by \$305,313 – includes additional depreciation and the required write off of various minor items).

As at 30 June, 2009 the Company had net assets of \$4.2 million made up of cash \$0.5 million, receivables of \$1.0 million, inventories of \$1.1 million, \$0.5 million of plant & equipment and \$2.8 million carrying value of Phoslock technology. The only liabilities the Company had were normal trade creditors of \$0.4 million, and employee provisions of \$0.1 million. Financial liabilities of \$1.05 million were converting notes and interest payable on these notes, which were both converted into 6.0 million PWS Shares on 18 August, 2009.

The Company's net assets were further enhanced post 30 June 2009 balance date with the Company undertaking a placement of 9.9 million new shares at 11 cents per share plus there was an exercise of 0.75 million 11 cent options, generating approximately \$1.2 million.

The Company continues to maintain a conservative strategy towards its liquidity and leverage. The immediate focus of the Company is to grow its revenues to a level where the Company is cash flow positive then profitable. The current budgeted level of revenue for cash flow positive (after adjusting for inventories) is approximately \$4.5 million with about \$5.5 million being required for profitability.

Development of the Phoslock Business

The demand for a unique product like Phoslock has never been stronger. The world is awash with phosphorus issues with the problem intensifying each year. Doing nothing is not an option; however there is often a long lead time between problem identification to undertaking a Phoslock treatment. During this period there is evaluation of treatment options and strategies, dialogue and consensus between lake authorities, local and central government and finally securing funding for the project. In many instances well funded dedicated lake authorities or oversight committees have been formed to tackle the issues of both improving water quality in their water bodies and stopping new nutrients from entering the water body.

PWS currently has a pipeline of over 50 projects totalling over 20,000 tons with progress well underway for many of these.

The pipeline is increasing every quarter as is the quality of customers. There will always be some project delays, however the Company is beginning to achieve a satisfactory level of project conversion which is increasing as the pipeline expands.



Phoslock being applied to industrial waste water ponds.

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

The Company's major sales regions are reviewed in detail below.

Europe & United Kingdom

Nine lakes were treated during the period, with applications in Germany, the Netherlands, Poland, and the UK. In-lake trials also commenced in February on Lake Varese, a 1,400 hectare lake in northern Italy with well known eutrophication issues. Other highlights included the launch of a private label retail product targeting the garden pond markets in Germany and France and expansion of our marketing activities to Scandinavia. The year concluded with confirmation that nearly 300 tons of Phoslock will be applied to at least two northern German lakes in November and December 2009. Decisions are pending on several other major projects.

Over the past twelve months, the sales pipeline for Phoslock in Europe and UK has

grown substantially and now includes two major projects of over 2,000 tons each and nine projects ranging in size between 50 and 300 tons. Four of these projects have target application dates prior to June 2010.

During the year PWS formalised arrangements with our European partner, Institute Dr Nowak (IDN) and Bentophos GmbH, and formed Phoslock Europe GmbH (PE), a joint venture company which now holds the license for Phoslock in 16 countries in western and central Europe. PWS has a 60% shareholding in PE.

A number of projects completed or commenced during the year deserve particular mention.

Firstly, an application of Phoslock was made to Lake De Kuil, a recreational lake in southern Netherlands which has a history of blue green algal blooms and frequent swimming bans. Like Lake Rauwbraken, a nearby lake treated in 2008, application resulted almost immediately in an improvement in water quality. Concentrations of both phosphorus and blue green algal have dropped significantly and the lake remained open for the entire 2009 summer period. This project was largely financed by the Dutch Government and several Dutch Water Boards under an innovation programme aimed at showcasing

restoration measures that will enable the Netherlands to comply with its obligations under the EU's Water Framework Directive. An important scientific contribution to the project was made by the University of Wageningen, which is rapidly becoming a key knowledge centre for Phoslock.

In March 2009 the first application of Phoslock took place in a reservoir near Dundee, Scotland. The reservoir forms part of a popular recreational park, frequently closed due to major blue green algae blooms. Results from this application have also been excellent with blue-green algal cell counts having been maintained at exceptionally low levels throughout the key summer months.

After several years of working with UK's National Environmental Research Council, they have given approval and financing for a 25 ton project to be applied to a lake in Scotland in early 2010. A parallel study focusing on both water quality and lake ecology has also been funded.

In-lake trials with Phoslock commenced in Lake Varese in northern Italy in February 2009. The 1,400 hectare lake is situated between Lake Como and Lake Maggiore with well known eutrophication issues caused by elevated levels of phosphorus. The Provincial Government is committed to improving its ecological condition of the lake and has allocated significant funding for the in-lake trials, which follow several years of laboratory and assessment of management options. The trial period is a minimum of 12 months and could extend to the 2010 summer period. Confidentiality clauses in our Agreement with the Province restricts the release of interim data, however we can report that the Company is very pleased with the results that have been achieved to date. An application of Phoslock to the entire lake is likely to require more than 2,000 tons.

2009 also saw the commencement of a joint project with the Finnish Environment Institute with four lakes identified and two likely to be treated in April-May 2010.

A small application of Phoslock was also undertaken in Poland in mid 2009 by our Polish licensee Ekol Ltd. Two larger applications totalling 185 tons are planned for the next six months, with preparations currently underway to undertake the first of these before the end of 2009.



Phoslock trial on Lake Varese, Italy.

Canada & North America

PWS has undertaken significant work over the last two years to position Phoslock as a major phosphorus reduction product and to remediate eutrophied water bodies in Canada. Canadian regulatory authorities have subjected Phoslock to the most stringent tests undertaken anywhere in the world. The results of these tests and trials have been excellent and Phoslock will shortly be in a position to be widely used in Canada.

PWS has developed a strong working relationship with the Lake Simcoe Regional Catchment Authority (LSRCA), located approx 100 km north of Toronto. Lake Simcoe is often referred to as the "sixth Great Lake". In December 2008 the Lake Simcoe Protection Act was passed legislating the requirement to reduce annual new phosphorus loadings entering the lake from the current level of 75 tons to 44 tons. The use of Phoslock to reduce phosphorus from high phosphorus loading areas (particularly the Holland Marsh agricultural area) is an important part of LSRCA's phosphorus reduction strategy. The Company is currently working on application plans with LSRCA for annual and in some instances semi-annual applications to various parts of the catchment basin areas.

LSRCA were recently awarded the 2009 International River Prize for its work on rehabilitation of Lake Simcoe and its catchment area. The next stage of their plans is an aggressive reduction in phosphorus levels entering the lake.

PWS is working on a number of other projects with other lake authorities in Ontario and other Canadian provinces. Approval for the use of Phoslock has held back some of these projects in 2009 however it is expected that a number of these projects will proceed in 2010.

Work is also underway with a number of parties to establish Phoslock in the United States. The Company's strategy is to work with well credential parties on regional projects, as opposed to having one license cover the whole of the country.

Australia & New Zealand

The Company completed a number of successful smaller applications in Australia during the year.

The proposed application to a 500 hectare metropolitan drinking water reservoir was delayed during the year however all parties

have agreed to an application in April-May 2010. This is an important development for our drinking water reservoir business both here in Australia and other key markets in UK, South East Asia and North America.

The company is working on a number of large projects around Australia ranging from rivers, lakes, and wetlands to nutrient stripping projects. These projects range from 25 tons to over 1,000 tons. The Company is confident that several of the large to major projects will be completed in the 2009/10 financial year.

China

China has a huge need to improve water quality and remediate water bodies. Each year the problems are getting worse. PWS has spent significant time, effort and cost working on 6 separate large water body remediation projects over the last few years with no tangible sales to date.

PWS will selectively continue to pursue projects in China where there is a high probability of a large short term sale and on terms and conditions which do not expose the Company financially.

Rest of the World

In addition to the countries and territories detailed above. PWS has licensees in 4 other countries including Taiwan, Korea, South Africa and Brazil. All four licensees are working

on various water body projects which PWS is supporting with technical input.

PWS maintains the license for Singapore, Malaysia and Indonesia. Trials in water bodies in one of these countries have demonstrated very good results and have recently been uplifted to trials in larger water bodies. Success in these trials could lead to some major (>1,000 ton) applications.

Aquaculture

Resources that the Company had allocated to develop the aquaculture market have been re-deployed to work on near term cash flow generating projects. The Company is still working with several producers in Asia and South America.

The Company still sees great potential using Phoslock in aquaculture ponds however the Board believes that our current resources are best deployed on servicing the lake, rivers and reservoir market where the projects are larger, the customers are more stable and the probability of closing a sale is higher. The Board is actively reviewing our resources dedicated to the aquaculture market and will allocate more resources if demand warrants it.

Production

Phoslock is manufactured at the Company's 71% owned joint venture factory near Kunming, in south western China. The current capacity for the plant is approx 7,000 tons per annum of Phoslock products. The plant has been



Gail Wood (CEO – LSRCA), Eddie Edmunds (PWS), Mike Walters (Director Watershed Management – LSRCA), Rob Baldwin (Manager Watershed Science – LSRCA).

historically run on a campaign basis as demand was not sufficient to run the plant full time. The plant is currently being run at full capacity as the Company increases its inventories to match orders for the foreseeable future.

Technical

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

The technical group has worked on a number of R&D projects to improve the performance of Phoslock, particularly in highly polluted water bodies. PWS lodged a new patent this year incorporating Phoslock with several

other products for use in highly polluted water bodies.

With an increased workload on near term cash flow generating projects, work on some longer term R&D projects, including pellets, has been wound back.

Global Financial Crisis

The majority of PWS's customers are government agencies, water authorities and councils. Water quality is a high priority issue for communities all around the world. The Company saw little evidence of cut backs by governments on water quality projects, most of which are long term in nature.

The major issue arising out of the GFC for PWS is the significant movement in the relative value of currencies. Our reporting currency is the Australian \$, while our product is manufactured in China whose currency is aligned to the US\$. Over the last 12 month we have seen the A\$ depreciate nearly 40% against the US\$ only to see it regain nearly all of this in the last few months. Conversely the A\$ has appreciated significantly against the British Pound and Euro and Asian currencies. This makes it difficult to price projects in the future. The company's risk management

committee has devised strategies to deal with large swings in the movement of currencies.

Shareholders

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

I would like to thank our hard working team of PWS Directors and executives for their significant contribution during the year. Notwithstanding the Company's unsatisfactory financial performance to date, the commitment by everyone to ensure that the Company succeeds has never been greater.



Robert Schuitema
Managing Director
5th October, 2009



Phoslock manufacturing plant in China.



Phoslock stand at 2009 Rivers Conference trade expo. Andrew Winks (PWS), Robert Schuitema (PWS), Virginia Hackson – Chair LSRCA), Mike Walters (Director Watershed Management – LSRCA), Gail Wood (CEO – LSRCA), Dr Sarah Groves (PWS).

Directors' Report

Your directors present their report on the Company and its controlled entities for the financial year ended 30th June 2009.

Directors

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

Dr David Garman

Mr Robert Schuitema

Mr Russell Brown
(resigned 26 November 2008)

The Hon. Pam Allan

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

Company Secretary

Mr Robert Schuitema - BCA, INFENZ, CA.
Mr Schuitema was appointed Company Secretary on 10th December 2008 replacing Mr Colin Upcroft.

Principal Activities

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

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

Operating Results

The consolidated loss of the consolidated entity after providing for income tax and eliminating outside equity interests amounted to \$2,616,305 (2008: (\$3,402,156)).

Dividends Paid or Recommended

No dividends have been paid or declared for payment in relation to the financial year ended 30th June 2009 (2008: \$Nil).

Review of Operations

Revenues recorded for the year of \$1,085,573 represent a 29% increase over the prior year. The major increases were sales in Europe and UK along with access to Australian Government Grants for both export development and ongoing research and development.

Operating expenses (including depreciation and amortization) for the year decreased by approx \$600,000. This was mainly attributable to lower employee, premises

and administration costs. This resulted in a full year operating loss of \$2,616,305 a 23% improvement of the previous year's loss of \$3,402,156. The loss for the second half of FY2008-09 of \$1,073,757 (which included a number of one off asset write downs for the carrying value of goodwill, investment in associate and non-Phoslock inventories totaling approx \$300,000) was a significant improvement on the loss for the first six months of FY2008-09 of \$1,537,548.

Although the Company remains in loss the Company believes that the outlook for the business remains very positive. During FY2008-09 the Company focused on its key markets of Australia, Europe and UK, North America, China and other parts of Asia. The level of business activity was significantly higher than previous years with 15 commercial applications completed. A number of applications were completed during the year along with a number of trials with major industry customers. The results of these trial applications and customers committing to use Phoslock on their water bodies and in their watershed areas could see a significant acceleration in the use of Phoslock and associated sales revenue.

The Company is currently awaiting confirmation to proceed on 11 separate projects with a sales value in excess of \$4,000,000 in our key markets (3 in Australia, 3 in Europe, 3 in Asia, 2 in Canada) over the next 6 months.

The Company is also undertaking trial applications in certain key markets where a positive outcome of these trials will lead to a project of significant status getting approval to go ahead. Several of these projects are in the range of \$5-\$10 million sales value. Decisions on some of these projects are expected in the FY2009/10.

The key to PWS's growth and development is increasing sales by converting its extensive pipeline into sales. PWS is building a business in which it expects near term annual sales of 2,000 - 4,000 tons and over the longer term to 20,000 tons, generating sales revenues in excess of A\$40m and EBIT in excess of A\$15m. PWS has invested heavily in the commercialisation of Phoslock and expects to quickly recoup this investment as the Phoslock business grows in the core target areas. PWS project pipeline remains significant with a number of large applications scheduled to be undertaken during the next six months. Success in these projects will be the catalyst

to establishing these markets as significant revenue earners.

Results for a number of projects undertaken since 2006 confirm the attributes of Phoslock. A number of mid sized lakes in Europe have been transformed from environmentally hazardous waterbodies which are often closed into those with excellent water quality and available for use all year round. To maintain the water body's excellent water quality status, the customers will need to reapply a small dose of Phoslock to absorb new nutrients entering the water body every 2-3 years.

Financial Position

The net assets of the economic entity have reduced by \$470,108 from 30 June 2008 to \$4,168,826 on 30 June 2009. The net decrease is a result of investment in marketing with sales not yet covering cash expenditure with a consequence reduction in cash reserves. The carrying value of Plant and Equipment and Intellectual Property has been reduced through the significant depreciation and amortisation charges.

During the past six financial years the group has invested in the Phoslock technology with the objective of securing its long term success. Strategic investments have been made in associated companies and licensee operations to provide the Company with the necessary management influence and control to ensure business goals and objectives are met. The directors believe the group is in a strong and stable financial position to capitalise on the many opportunities to expand and grow its current operations.

Future Developments, Prospects and Business Strategies

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

- i. Conversion of the current sales pipeline, particularly in Europe and the UK, Canada and Australia into near term sales. Phoslock continues to gain industry acceptance in these markets with post application results to date confirming the efficacy of the technology.
- ii. Rapid expansion in the potentially large Canadian market in both lake management and storm water catchment sectors. Work to date has confirmed the significant potential for the Phoslock technology in these business sectors. PWS are currently

- evaluating strategies to best capitalise on this opportunity. A crucial milestone will be the environmental approval for use in Ontario.
- iii. Completion of a major Australian drinking water project. Success in this treatment is anticipated to be the catalyst for establishing Phoslock as the preferred nutrient management tool for major Australian water authorities and other countries. A critical milestone will be use by a major urban water manager on a large reservoir.
 - iv. Development of our Asia business particularly in China and Singapore. A crucial milestone will be the use for urban waterbody eutrophication control.
 - v. When demand justifies additional production capacity, PWS proposes to construct a second Phoslock production facility, most likely in China. A second plant, in addition to providing the capacity to meet the expected demand growth, will mitigate the risks associated with a single production source.
 - vi. Evaluation and development of other water treatment products and cleantech technologies via licencing arrangements or acquisition to add to PWS's existing product range.

Going Concern

The consolidated entity recorded an operating loss of \$2,616,305 for the year ended 30 June 2009 (2008: loss of \$3,402,156) and has accumulated losses of \$23,935,377 (2008: \$21,319,072) as at 30th June 2009. The directors are satisfied that it is appropriate to report that the Company is a going concern based on the following reasons:

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

The Company is currently awaiting confirmation to proceed on 11 separate projects with a sales value in excess of \$4,000,000 in our key markets (3 in Australia, 3 in Europe, 3 in Asia, 2 in Canada) over the next 6 months. One of these projects with a contract value of over \$500,000 in Germany has recently committed to proceed with the Phoslock application in October-November 2009.

The Company is also undertaking trial applications in certain key markets where a positive outcome of these trials will lead to a project of significant status getting approval to go ahead. Several of these projects are in the range of \$5-\$10 million sales value. Decisions on some of these projects are expected in the FY2009/10.

The Company's management undertook a major cost containment in late 2007 the benefits of which have partly flowed through in FY2008/09 with the full benefits to be realised in FY2009/10 and beyond. Management expects that cash operating costs for FY2009/10 will be approx \$2,000,000 (net of government grants).

Since 30 June 2009 balance date, the Company has raised approx \$1,162,000 from the exercise of unlisted options in July

Information on Directors

Dr David Garman	Chairman (Non-executive)
Qualifications	Ph D (Syd), M. Sc(Syd),B.Sc (Sp Hons) London, MAICD
Experience	Board member since 2001, Executive Director CRC for Waste Management Ltd and the Environmental Biotechnology CRC, President and Director International Water Association.
Interest in Shares and Options	800,000 Ordinary Shares in Phoslock Water Solutions Limited and options to acquire a further 500,000 ordinary shares.
Special Responsibilities	Dr Garman is a Member of the Audit Committee and Remuneration Committee.
Mr Robert Schuitema	Managing Director (Executive)
Qualifications	BCA, NZSIA, CA
Experience	Board member since April 2005. Former Managing Director of investment bank Chase Manhattan and later JP MorganChase responsible for the bank's mining, metals and project finance business in Australia and the Asia Pacific region.
Interest in Shares and Options	3,476,888 Ordinary Shares in Phoslock Water Solutions Limited and options to acquire a further 4,227,272 ordinary shares.
Special Responsibilities	Mr Schuitema is a Member of the Audit Committee and Remuneration 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	Board member since 2007. 18 years membership of the NSW Parliament including 5 years as Minister for the Environment.
Interest in Shares and Options	500,000 options to acquire ordinary shares in Phoslock Water Solutions Ltd.
Special Responsibilities	Ms Allan is a Member of the Audit Committee and Remuneration Committee.

2009 and a placement of new shares to both existing shareholders and new shareholders both in Australia and overseas. The effect of the capital raisings has seen consolidated cash increase to approx \$1,400,000 as at the date of this report.

The converting notes outstanding at 30 June 2009 were converted to equity in terms of the conditions of the note on 18 August 2009. The Company is debt free and had creditors of less than \$30,000 at the date of this report.

The Company has approx 25 million unlisted options on issue at the date of this report. Of these, 9.9 million unlisted options mature on or before 10 August 2010 at an exercise price of 11 cents per share. If all the options were exercised this would raise \$1,090,000 of new equity available to be used by the company.

The Company believes that its current liquidity position along with sales outlook for the next 12 months (and beyond) will generate sufficient cashflow for the company to maintain a strong liquidity base to operate and grow the Phoslock business in its key markets.

Significant Changes in State of Affairs

No significant changes in the state of affairs of the parent entity occurred during the financial year.

After Balance Date Events

On the 31st July, 2009 681,818 options were exercised at \$0.11 raising funds of \$75,000 for working capital.

On the 10th August 2009 the Company issued 4,912,066 fully paid shares in the parent entity to raise funds of \$540,327 for working capital. The Company also issued 4,912,066 options to acquire shares at 11 cents per share on or before 10th August 2010.

On the 21st August 2009 the Company issued 5,912,597 fully paid shares in the parent entity to repay A\$1,000,000 of Converting Notes by converting the Notes into PWS shares (at 18 cents per share) and interest on the Converting Notes for the six month period to 18 August, 2009 into PWS shares (at 15 cents per share).

On the 25th August 2009 the Company issued 4,988,637 fully paid shares in the parent entity to raise funds of \$548,750 for working capital. The Company also issued 4,988,637 options

to acquire shares at 11 cents per share on or before 10th August 2010.

On the 26th August 2009 the Company announced a German lake project with a contract value of over \$500,000 had committed to proceed in October-November 2009.

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

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

Remuneration Report

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

Remuneration Policy

The remuneration policy of Phoslock Water Solutions Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the economic 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 best executives and directors to run and manage the economic 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. All executives receive a base salary (which is based on factors such as length of service and experience), superannuation and options. 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.

The performance of executives is measured against criteria agreed annually with each executive. Bonuses and incentives are linked to performance criteria. The policy is designed to attract the highest caliber of executives and reward them for performance that results in long-term growth in shareholder wealth.

All remuneration paid to key management personnel is measured at cost to the Company and expensed. Options are valued by reference to the Black Scholes methodology. The board's policy is to remunerate non-executive directors by reference to market rates for comparable companies, time commitment, responsibilities and experience relevant to the industry. The remuneration committee determines payments to non-executive directors and reviews their remuneration annually based on market practice, duties and accountability. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the economic 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 employee option arrangements.

Performance Based Remuneration

It is the intention of the remuneration committee to establish an incentive based component for executives based on performance measured against achievement of key performance indicators (KPIs). This program will facilitate goal congruence between directors/executives with that of the business and shareholders. KPIs will be set annually, with a certain level of consultation with directors/

executives to ensure buy-in. The measures will be specifically tailored to the areas each director/executive is involved in and has a level of control over. The KPIs target areas the board believes hold greater potential for group expansion and profit, covering financial and non-financial

as well as short and long term goals. The level set for each KPI will be based on forecast figures for the group and respective industry standards.

Performance in relation to the KPIs will be assessed annually, with bonuses being awarded depending on the number and

deemed difficulty of the KPIs achieved. Following assessment, the KPIs will be reviewed by the remuneration committee in light of desired and actual outcomes, and their efficiency assessed in relation to the group's goals and shareholder wealth, before KPIs are set for the following year.

Key Management Personnel Remuneration

	Short-term Employee Benefits		Post Employment Benefits	Share-based Payments	Total	Performance Related
	Salary, Fees and Commissions \$	Other \$	Superannuation \$	Shares & Options \$	\$	%
2009						
Directors						
Mr Robert Schuitema	235,000	39,402	23,500	-	297,902	-
The Hon. Pam Allan	45,000	-	4,050	-	49,050	-
Dr David Garman	75,000	-	7,500	-	82,500	-
Mr Russell Brown	16,666	-	1,500	-	18,166	-
	371,666	39,402	36,550	-	447,618	-
Specified Executives						
Mr Colin Upcroft	91,705	6,875	7,093	-	105,673	-
Mr Nigel Traill	100,000	60,000	9,000	20,000	189,000	11
Mr Eddie Edmunds	182,000	20,000	32,000	-	234,000	-
Mr Andrew Winks	91,745	-	8,257	10,000	110,002	9
Ms Sarah Groves	110,000	15,000	9,900	10,000	144,900	7
	575,450	101,875	66,250	40,000	783,575	
Total	947,116	141,277	102,800	40,000	1,231,193	
2008						
	Salary, Fees and Commissions \$	Other \$	Superannuation \$	Options \$	\$	%
Directors						
Mr Robert Schuitema	250,000	30,000	25,000	-	305,000	-
The Hon. Pam Allan	43,125	-	3,881	8,026	55,032	-
Dr David Garman	75,000	-	7,500	-	82,500	-
Mr Russell Brown	45,000	-	-	-	45,000	-
	413,125	30,000	36,381	8,026	487,532	
Specified Executives						
Mr Colin Upcroft	148,418	15,000	16,500	16,052	195,970	8.2
Mr Nigel Traill	100,000	60,000	9,000	16,052	185,052	8.7
Mr Eddie Edmunds	188,000	20,000	32,000	-	240,000	-
Mr Andrew Winks	91,745	-	8,257	4,816	104,818	4.6
Dr Sarah Groves	90,833	15,000	8,287	4,816	118,936	4.1
	618,996	110,000	74,044	41,736	844,776	
Total	1,032,121	140,000	110,425	49,762	1,332,308	

Remuneration

Executive directors and executives were not paid performance based bonuses during the year. No executive director received any share or option based remuneration during the year. Three executives received a total of 400,000 shares (total cost to the Company of \$40,000) as part of their remuneration package during the year. The remuneration committee will consider future bonuses to encourage achievement

of specific goals that have been given a high level of importance in relation to the future growth and profitability of the economic entity. The remuneration committee will review performance bonuses to gauge their effectiveness against achievement of the set goals, and adjust future years' incentives as they see fit, to ensure use of the most cost effective and efficient methods.

Shares and Options Issued as Part of Remuneration for the Year Ended 30 June 2009

Shares were issued to specified executives as part of their remuneration with Phoslock Water Solutions Ltd. The shares were not issued based on specific performance criteria, but rather as recognition of contribution and performance with the objective of increasing goal congruence between executives, directors and shareholders.

	No of Ordinary Shares Issued	Amount paid per share
Key Management Personnel		
Mr Nigel Traill	200,000	\$0.10
Mr Andrew Winks	100,000	\$0.10
Dr Sarah Groves	100,000	\$0.10
	<u>400,000</u>	

No options were issued to executives or directors during the current financial year.

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

	Balance 1.07.2008	Received as Compensation	Options Exercised	Net Change Other*	Balance 30.06.2009
Key Management Personnel					
Dr David Garman	800,000	-	-	-	800,000
Mr Robert Schuitema	2,508,017	-	-	968,871	3,476,888
Mr Russell Brown	-	-	-	-	-
The Hon. Pam Allan	-	-	-	-	-
Mr Colin Upcroft	260,000	-	-	(63,636)	196,364
Mr Eddie Edmunds	-	-	-	-	-
Mr Nigel Traill	2,300,529	200,000	-	363,636	2,864,165
Dr Sarah Groves	-	100,000	-	-	100,000
Mr Andrew Winks	-	100,000	-	-	100,000
Total	5,868,546	400,000	-	1,268,871	7,537,417

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

	Balance 1.07.2008	Options Acquired	Options Exercised	Options Lapsed/ Forfeited	Balance 30.06.2009	Total Vested 30.06.2009	Total Exercisable 30.06.2009	Total Unexercisable 30.06.2009
Dr David Garman	1,500,000	-	-	(1,000,000)	500,000	-	-	500,000
Mr Robert Schuitema	7,000,000	227,272*	-	(3,000,000)	4,227,272	4,227,272	4,227,272	-
Mr Russell Brown	500,000	-	-	(500,000)	-	-	-	-
The Hon. Pam Allan	500,000	-	-	-	500,000	500,000	500,000	-
Mr Colin Upcroft	1,500,000	34,090*	-	(1,500,000)	34,090	34,090	34,090	-
Mr Eddie Edmunds	2,350,000	-	-	(1,350,000)	1,000,000	1,000,000	1,000,000	-
Mr Nigel Traill	1,500,000	90,909*	-	(1,000,000)	590,909	90,909	90,909	500,000
Dr Sarah Groves	400,000	-	-	(150,000)	250,000	-	-	250,000
Mr Andrew Winks	800,000	-	-	(650,000)	150,000	-	-	150,000
Total	16,050,000	352,271*	-	(9,150,000)	7,252,271	5,852,271	5,852,271	1,400,000

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

	2009		2008	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Outstanding at the beginning of the year	27,322,913	0.28	28,437,913	0.28
Granted	5,492,724	0.11	5,400,000	0.44
Forfeited	(800,000)	0.40	(1,375,000)	0.37
Exercised	-	-	(2,200,000)	0.23
Expired	(10,725,000)	0.27	(2,940,000)	0.20
Outstanding at year-end	21,290,637	0.29	27,322,913	0.32
Exercisable at year-end	19,940,637	0.27	17,775,000	0.29

5,492,724 options were issued during the year ended 30 June 2009. These options had a weighted average share price of \$0.11 at exercise date. The options outstanding at 30 June 2009 had a weighted average exercise price of \$0.29 and a weighted average remaining contractual life of 1.05 years. Exercise prices range from \$0.11 to \$0.60 in respect of options outstanding at 30 June 2009.

The weighted average fair value of the options granted during the year was \$0.01

This price was calculated by using a Black Scholes option pricing model applying the following inputs:

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

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

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

Included under employee benefits expense in the income statement is \$72,440 (2008: \$64,688) and relates, in full, to equity settled share-based payment transactions.

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

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

	Options Granted as Part of Remuneration	Total Remuneration Represented by Options	Options Exercised	Options Lapsed	Total
	\$	%	\$	\$	\$
Dr David Garman	-	-	-	(1,000,000)	(1,000,000)
The Hon. Pam Allan	-	-	-	-	-
Mr Robert Schuitema	-	-	-	(3,000,000)	(3,000,000)
Mr Colin Upcroft	-	-	-	(1,500,000)	(1,500,000)
Mr Nigel Traill	-	-	-	(1,000,000)	(1,000,000)
Mr Eddie Edmunds	-	-	-	(1,350,000)	(1,350,000)
Mr Andrew Winks	-	-	-	(1,000,000)	(1,000,000)
Ms Sarah Groves	-	-	-	(650,000)	(650,000)

Value of options that lapsed as a result of vesting conditions not being fulfilled was \$43,190.

Employment Contracts of Directors and Senior Executives

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

Employment contracts stipulate a range of one to three month resignation periods. The Company may terminate a contract of employment without cause by providing written notice or making payment in lieu of notice for a period equivalent to the resignation period. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time.

Meetings of Directors

During the financial year, 6 meetings of directors (including committees of directors) were held. Attendances by each director during the year were:

	Directors' Meetings		Committee Meetings			
	Number eligible to attend	Number attended	Audit		Remuneration	
			Number eligible to attend	Number attended	Number eligible to attend	Number attended
Dr David Garman	6	6	1	1	1	1
Mr Robert Schuitema	6	6	1	1	1	1
Mr Russell Brown	3	3	1	1	1	1
The Hon. Pam Allan	6	6	1	1	1	1

Indemnifying Officers or Auditor

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

The Company has paid premiums totaling \$38,702 to insure all directors and executives against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director or officer of the Company. Neither indemnities nor agreements to indemnify exist in relation to the Company's auditor.

Options

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

Grant Date	Date of expiry	Exercise price	Number under option
10-Aug-05	10-Aug-10	\$0.22	2,997,913
24-Nov-05	30-Nov-09	\$0.30	4,000,000
24-Nov-05	30-Nov-10	\$0.40	4,000,000
15-Dec-05	30-Nov-09	\$0.30	800,000
15-Dec-05	30-Nov-10	\$0.40	800,000
10-Jan-07	30-Jun-10	\$0.60	1,000,000
31-May-07	31-Dec-09	\$0.50	100,000
23-Jun-07	31-Dec-09	\$0.50	50,000
29-Nov-07	1-Dec-09	\$0.40	250,000
29-Nov-07	1-Dec-10	\$0.50	250,000
18-Dec-07	1-Dec-10	\$0.50	850,000
11-Apr-08	31-Dec-11	\$0.50	500,000
15-Apr-08	30-Jun-10	\$0.25	200,000
10-Aug-09	10-Aug-10	\$0.11	4,912,066
25-Aug-09	10-Aug-10	\$0.11	4,988,637
			25,698,616

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

Details of options outstanding at 30 June 2009 including options issued, exercised and forfeited are detailed at Note 26.

Proceedings on Behalf of Company

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

Non-audit Services

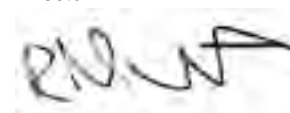
No non-audit services were provided to the Company by the company's auditors during the reporting period.

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 2009 has been received and can be found on page 17 of the Annual Report.

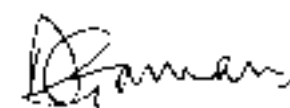
Signed in accordance with a resolution of the Board of Directors.

Director



Mr Robert Schuitema - Managing Director

Director

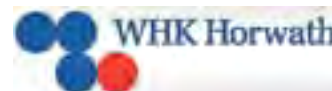


Dr David Garman - Chairman of Directors

Dated this 31th day of August 2009

Auditor's Independence Declaration

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



To the Directors of Phoslock Water Solutions Limited

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2009 there have been:

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

WHK Horwath

WHK HORWATH
Chartered Accountants

Vanessa M de Waal

VANESSA M DE WAAL
Principal

Signed in Brisbane 31 August 2009

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



Attendees at Phoslock Lake Management seminar in Germany in October, 2009.

Corporate Governance

Phoslock Water Solutions Ltd (PWS) director's and management are committed to conducting the Company's business ethically and in accordance with high standards of corporate governance.

This statement describes PWS's approach to corporate governance. The Board believes that PWS's policies and practices comply in all substantial respects with the ASX Corporate Governance Council Principles of Good Corporate Governance. In the sections below, comments are made in relation to each ASX Corporate Governance Council principle.

PRINCIPLE 1 – Lay Solid Foundations for Management and Oversight

The primary role of the PWS Board is the protection and enhancement of long-term shareholder value. The Board is accountable to shareholders for the performance of the Company. It directs and monitors the business and affairs of the Company on behalf of shareholders and is responsible for the Company's overall corporate governance.

Meetings of the Board are held every four to six weeks. The Board meets on other occasions as the business of the company may require. Directors receive comprehensive board papers in advance.

Responsibility for managing, directing and promoting the profitable operation and development of the Company, consistent with the primary objective of enhancing long-term shareholder value, is delegated to the Managing Director, who is accountable to the Board.

The Board is responsible for:

- Appointing the Managing Director, setting objectives and reviewing performance against those objectives, ensuring appropriate policies and procedures are in place for recruitment, training, remuneration and succession planning;
- Setting the strategic direction of the Company and establishing goals to ensure strategic objectives are met;
- Monitoring financial performance including approval of the annual and half-yearly financial reports;
- Ensuring major risks facing the Company

and its controlled entities have been identified and appropriate and adequate control, monitoring and reporting mechanisms are in place;

- Receiving detailed briefings from senior management on a regular basis during the year;

Ensuring the Company complies with relevant laws and conforms to the highest standards of financial and ethical behaviour.

Members of the Board visit the Company's places of business and meet with local management and key customers. These actions enable directors to enhance their knowledge of the Company's activities and assist them in setting performance goals and objectives for senior executives.

PRINCIPLE 2 – Structure the Board to Add Value

Details of the director's as at the date of this report, including their qualifications and experience are set out in the Directors' Report.

The Board considers that its structure, size, focus, experience and use of committees enable it to operate effectively and add value to the Company. Due to the relatively small board of directors the Company does not

consider it necessary to have a separate nominations committee. The board as a whole fulfills this function.

The Board currently comprises 3 directors: 2 independent non-executive directors including the Chairman, and one executive director being the Managing Director.

The Board does not believe that any director has served on the Board for a period which could materially interfere with the director's ability to act in the best interests of the Company. The Board believes that maintaining flexibility in relation to the appropriate term for each director allows it to attract and retain directors with the best possible relevant skills and expertise.

The director's are conscious of the need to ensure that Board members possess the diversity of skill and experience required to fulfill the obligations of the Board. In considering membership of the Board, directors take into account the appropriate characteristics needed by the Board to maximize its effectiveness and the blend of skills, knowledge and experience necessary for the present and future needs of the Company.



Toxic blue green algae takes over major urban waterbody

New directors receive a letter of offer, which sets out the terms of their appointment. An induction program is available to directors that includes visits to key business units of the Company and one-on-one sessions with members of the senior management team.

PRINCIPLE 3 – Promote Ethical and Responsible Decision – Making

PWS is committed to being a socially responsible corporate citizen, using honest and fair business practices, to act in the best interests of clients to achieve the best outcome for shareholders. The Board has established a formal Code of Conduct in this regard. This code is posted on the Company's website.

The Board has procedures in place for reporting any matters that may give rise to conflict between the interests of a director and those of the Company. These procedures are reviewed as required by the Board. To this end, the Company has adopted a Conflict of Interest Policy that clarifies the processes for directors to determine and disclose when a conflict of interest exists.

Each director is obliged to immediately inform the Company of any fact or circumstance, which may affect the question of the director's independence.

If a conflict of interest arises, the director concerned is not present at the Board meeting whilst the item is considered. Directors must keep the Board advised, on an ongoing basis of any interests that could potentially conflict with those of the Company.

The Board encourages non-executive directors to own shares in the Company to further link their interests with the interests of all shareholders. The Board has approved a comprehensive Share Trading Policy for dealing in securities. This policy is posted on the Company's website. Directors and employees must not, directly or indirectly buy or sell the Company's shares when in possession of unpublished price sensitive information, which could materially affect the value of those securities.

Any transaction conducted by directors in shares of the Company is notified to the Australian Stock Exchange. Directors enter into an agreement with the Company to provide information to allow the Company to notify the ASX of any transaction within 5 business days.

PRINCIPLE 4 – Safeguard Integrity in Financial Reporting

The Audit & Compliance Committee comprises all Board members. Due to the relatively small size of the PWS Board the Managing Director is a member of the committee. The members of the committee contribute a range of financial and accounting skills and commercial experience. The role of the Audit & Compliance Committee is to identify areas of significant business risks and monitor the Company's activities with regard to the following:

- Effective management of financial and other business risks;
- Reliable management reporting;
- Compliance with laws and regulations in respect to financial reporting;
- Maintenance of effective and efficient audits.

In addition the Audit & Compliance Committee is responsible for:

- Meeting with external auditors as circumstances require;
- Providing recommendations as to the appointment, removal and remuneration of the external auditors, review the auditor's terms of engagement and scope and quality of the audit.

The Audit & Compliance Committee also provides additional assurances regarding the reliability of financial information for inclusion in the financial statements. The Audit Committee has adopted a formal charter. The charter can be found on the Company's website.

Both the Managing Director and Chief Financial Officer have certified to the Board, in writing, that the Company's financial report represents a true and fair view, in all material respects, of the group's financial condition and operational results and are in accordance with relevant accounting standards.

The Company's financial accounts are subject to an annual audit by an independent, professional auditor who also reviews the Company's half-yearly financial statements.



Pallets of Phoslock waiting to be applied at lake De Kuil

The Board recognises that in certain circumstances individual directors may need to seek independent professional advice, at the expense of the Company, on matters arising in the course of their duties. Any advice so received will be made available to other directors.

PRINCIPLE 5 – Make Timely and Balanced Disclosure

The Company seeks to provide relevant and timely information to its shareholders and is committed to fulfilling its obligations to the broader market for continuous disclosure and enabling equal access to material information in relation to the Company.

Communication with shareholders is achieved through the distribution of the following information:

- The Annual Report available to all shareholders;
- The Annual General Meeting and other meetings called to obtain shareholder approval for Board action as appropriate;
- Announcements to the Australian Stock Exchange and
- Investor information through the Company's internet portal at www.phoslock.com.au.

The Company strives to ensure that company announcements via the ASX are made, in

a timely manner, are factual, do not omit material information and are expressed in a clear and objective manner.

ASX listing rules serve as the Company's written policy and procedure in relation to disclosure compliance. The Company Secretary is responsible for ensuring compliance with the ASX listing rules.

PRINCIPLE 6 – Respect the Rights of Shareholders

The Board ensures that its shareholders are fully informed of significant developments within the business. Regular announcements to the ASX are available on the Company's website. Notices of shareholder meetings are distributed in a timely manner and are accompanied by all relevant information to enable shareholders to participate in informed decision making. Shareholders may raise any issues or concerns directly with the Company at any time by contacting the Managing Director or Company Secretary.

The shareholders of the Company are responsible for voting on the election of directors at the Annual General Meeting in accordance with the constitution. All directors are subject to re-election by rotation, no later than every three years. The Annual General Meeting provides shareholders with the opportunity to express their views

on matters concerning the Company and to vote on other items of business for resolution by shareholders.

A partner of the Company's audit firm, WHK Howarths Chartered Accountants will be present at the Annual General Meeting and be available to answer any questions concerning the audit and the content of the auditor's report.

PRINCIPLE 7 – Recognise and Manage Risk

The Company's Board is responsible for overseeing the risk management function. The Company believes that it is crucial for all board members to be a part of the process and as such has not established a separate risk management committee.

The Board ensures that the Company conducts its operations in a manner that allows risks to be formally and systematically identified, assessed and appropriately managed. A formal policy is being adopted to document risk policies.

The Board is responsible for ensuring risks and also opportunities are identified on a timely basis and that the Company's objectives and activities are aligned with the risks identified by the Board. The Board has a number of mechanisms in place to ensure management's objectives and activities are aligned with the risks identified by the Board.

These include the following:

- Implementation of board approved operating plans and budgets;
- Board monitoring of progress against these budgets, including the monitoring of key performance indicators of both a financial and non-financial nature; and
- The establishment of working groups to report on specific risks as identified.

Both the Managing Director and Chief Financial Officer have certified to the Board, in writing, that statements made in relation to the Company's financial report are based on a sound system of risk management and internal control compliance, operating efficiently and effectively, which implements policies adopted by the board.



Loading Phoslock onto an application barge.

PRINCIPLE 8 – Encourage Enhanced Performance

Senior executives including the Managing Director are subject to a formal performance review process on an annual basis. The focus of the performance review is to set specific objectives and monitor performance against them for each executive that are aligned with the Company's business objectives. Further details of the review process are contained in the remuneration report on pages 11 - 15 of the 2009 Annual Report.

Board performance assessment is a continuous process with input both from individual directors and key stakeholders. A formal assessment procedure is in the process of being drafted.

PRINCIPLE 9 – Remunerate Fairly and Responsibly

The Board has an established Remuneration Committee comprising all board members. The role of the Remuneration Committee is to review the Company's remuneration plans, policies and practices, including compensation arrangements for the non-executive directors, Managing Director and executives. It is responsible for considering general remuneration policies and practices, recruitment and termination policies and superannuation requirements. There are

no retirement schemes or retirements benefits other than statutory benefits for non-executive directors. The company's remuneration policies are set out in the Company's 2009 Annual Report.

Director's Fees

Total remuneration for non-executive directors is determined by resolution of shareholders. Non-executive directors' fees are determined by the Board within the aggregate amount of \$200,000 approved by shareholders at the 2004 Annual General Meeting.

The details of remuneration paid to each non-executive director during the last financial year is set out in the Company's 2009 Annual Report.

Executive Remuneration

The Board believes that executive remuneration should be fair and reasonable, structured effectively to motivate and retain valued executives and designed to produce value for shareholders.

Details of executive's remuneration are also shown in the Company's 2009 Annual Report.

PRINCIPLE 10 – Recognise the Legitimate Interests of Stakeholders

The Board has established a formal Code of Conduct, as disclosed under Principle 3,

which documents the Company's approach to stakeholders. The Company expects its Directors and employees to act with the utmost integrity with all stakeholders. The Company encourages participation by its directors and employees in industry bodies that promote and support the industries in which the Company operates.



Tests at waterbody showing effectiveness of Phoslock

Financial Report for period ended 30 June 2009

Phoslock Water Solutions Limited and Controlled Entities

ABN 88 099 555 290

Income Statement for the year ended 30 June 2009

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
Sales Revenue	2	615,438	721,927	-	-
Cost of Sales		(272,684)	(449,409)	-	-
Gross Profit		342,754	272,518	-	-
Other income	2	470,135	119,552	-	-
Distribution expenses		(102,231)	(67,192)	-	-
Marketing expenses		(279,046)	(224,298)	-	-
Occupancy expenses		(187,119)	(199,611)	-	-
Administrative expenses		(752,766)	(867,673)	(78)	(96)
Employee benefits expense		(1,516,211)	(1,959,347)	(44,000)	-
Depreciation and amortisation		(518,637)	(459,705)	-	(110,100)
Finance costs		(130,924)	(49,653)	(120,000)	(43,726)
Other expenses		(75,670)	(26,002)	(20,000)	-
Impairment of receivables from wholly owned subsidiaries		-	-	(19,758,436)	-
Share of net loss of associates		-	(4,135)	-	-
Loss before income tax	3	(2,749,715)	(3,465,546)	(19,942,514)	(153,922)
Income tax benefit	4	-	28,018	-	28,018
Loss for the year		(2,749,715)	(3,437,528)	(19,942,514)	(125,904)
Loss attributable to minority equity interest		133,410	35,372	-	-
Loss attributable to members of the parent entity		(2,616,305)	(3,402,156)	(19,942,514)	(125,904)
Basic earnings per share (cents per share)	7	(1.60)	(2.30)		
Diluted earnings per share (cents per share)	7	(1.46)	(2.20)		

The accompanying notes form part of these financial statements

Balance Sheet as at 30 June 2009

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	8	527,148	349,926	3,087	3,165
Trade and other receivables	9	517,038	471,876	-	-
Inventories	10	1,061,487	1,107,560	-	-
Other current assets	17	61,996	39,292	-	-
TOTAL CURRENT ASSETS		2,167,669	1,968,654	3,087	3,165
NON-CURRENT ASSETS					
Trade and other receivables	9	361,190	400,000	-	17,929,885
Investments accounted for using the equity method	11	-	30,806	-	-
Financial assets	13	-	-	4,661,035	4,668,029
Property, plant and equipment	15	485,176	695,744	-	-
Intangible assets	16	2,778,742	3,109,102	-	-
TOTAL NON-CURRENT ASSETS		3,625,108	4,235,652	4,661,035	22,597,914
TOTAL ASSETS		5,792,777	6,204,306	4,664,122	22,601,079
CURRENT LIABILITIES					
Trade and other payables	18	349,348	454,976	-	-
Financial liabilities	19	1,050,609	948,576	1,043,726	943,726
Short-term provisions	20	78,723	86,372	-	-
TOTAL CURRENT LIABILITIES		1,478,680	1,489,924	1,043,726	943,726
NON-CURRENT LIABILITIES					
Financial liabilities	19	95,271	26,239	-	-
Other long-term provisions	20	50,000	49,209	-	-
TOTAL NON-CURRENT LIABILITIES		145,271	75,448	-	-
TOTAL LIABILITIES		1,623,951	1,565,372	1,043,726	943,726
NET ASSETS		4,168,826	4,638,934	3,620,396	21,657,353
EQUITY					
Issued capital	21	26,854,352	24,977,235	26,854,352	24,977,235
Reserves	22	1,220,939	875,775	1,006,753	978,313
Retained earnings		(23,935,377)	(21,319,072)	(24,240,709)	(4,298,195)
Parent interest		4,139,914	4,533,938	3,620,396	21,657,353
Minority equity interest		28,912	104,996	-	-
TOTAL EQUITY		4,168,826	4,638,934	3,620,396	21,657,353

The accompanying notes form part of these financial statements

Statement of Changes in Equity for the period ended 30 June 2009

	Issued Share Capital	Accumulated Losses	Foreign Currency Translation Reserve	Option Reserve	Minority Equity Interests	Total
	\$	\$	\$	\$	\$	\$
Consolidated Group						
Balance at 1 July 2007	24,458,037	(17,916,916)	(49,033)	913,625	152,331	7,558,044
Loss attributable to members of parent entity	-	(3,402,156)	-	-	-	(3,402,156)
Loss attributable to minority shareholders	-	-	-	-	(35,372)	(35,372)
Shares issued during the year	540,900	-	-	-	-	540,900
Transaction costs	(21,702)	-	-	-	-	(21,702)
Adjustments from translation of foreign controlled entities	-	-	(53,505)	-	(11,963)	(65,468)
Option reserve on recognition of other issue of options	-	-	-	64,688	-	64,688
Balance at 30 June 2008	24,977,235	(21,319,072)	(102,538)	978,313	104,996	4,638,934
Shares issued during the year	1,914,915	-	-	-	-	1,914,915
Transaction costs	(37,798)	-	-	-	-	(37,798)
Loss attributable to members of parent entity	-	(2,616,305)	-	-	-	(2,616,305)
Loss attributable to minority shareholders	-	-	-	-	(133,410)	(133,410)
Adjustments from translation of foreign controlled entities	-	-	316,724	-	57,326	374,050
Option reserve on recognition of employee options expense	-	-	-	28,440	-	28,440
Balance at 30 June 2009	26,854,352	(23,935,377)	214,186	1,006,753	28,912	4,168,826

	Issued Share Capital	Accumulated Losses	Foreign Currency Translation Reserve	Option Reserve	Minority Equity Interests	Total
	\$	\$	\$	\$	\$	\$
Parent Entity						
Balance at 1 July 2007	24,458,037	(4,172,291)	-	913,625	-	21,199,371
Shares issued during the year	540,900	-	-	-	-	540,900
Transaction Costs	(21,702)	-	-	-	-	(21,702)
Loss attributable to members of parent entity	-	(125,904)	-	-	-	(125,904)
Option reserve on recognition of other issue of options	-	-	-	64,688	-	64,688
Balance at 30 June 2008	24,977,235	(4,298,195)	-	978,313	-	21,657,353
Shares issued during the year	1,914,915	-	-	-	-	1,914,915
Transaction costs	(37,798)	-	-	-	-	(37,798)
Loss attributable to members of parent entity	-	(19,942,514)	-	-	-	(19,942,514)
Option reserve on recognition of employee options expense	-	-	-	28,440	-	28,440
Balance at 30 June 2009	26,854,352	(24,240,709)	-	1,006,753	-	3,620,396

The accompanying notes form part of these financial statements

Cash Flow Statements for the year ended 30 June 2009

		Consolidated Group		Parent Entity	
	Note	2009	2008	2009	2008
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		1,021,688	587,957	-	-
Interest received		31,023	55,679	-	-
Payments to suppliers and employees		(2,747,096)	(3,802,786)	(78)	(96)
Finance costs		(16,808)	(4,926)	-	-
Income tax rebates		-	28,018	-	28,018
Net cash provided by (used in) operating activities	25a	(1,711,193)	(3,136,058)	(78)	27,922
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		31,643	26,260	-	-
Purchase of property, plant and equipment		(3,385)	(37,229)	-	-
Purchase of investments		-	(20,000)	-	-
Purchase of other non-current assets		(39,739)	(27,104)	-	-
Net cash used in investing activities		(11,481)	(58,073)	-	-
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		1,756,800	500,900	1,756,800	1,400,900
Proceeds from borrowings		177,680	900,000	-	-
Repayment of borrowings/funds advanced to wholly owned subsidiaries		(6,299)	(5,762)	(1,719,002)	(1,406,296)
Transaction costs		(37,798)	(24,604)	(37,798)	(24,604)
Net cash provided by (used in) financing activities		1,890,383	1,370,534	-	(30,000)
Net increase in cash held		167,709	(1,823,597)	(78)	(2,078)
Cash at beginning of financial year		349,610	2,172,975	3,165	5,243
Effect of exchange rates on cash holdings in foreign currencies		9,829	232	-	-
Cash at end of financial year	8	527,148	349,610	3,087	3,165

The accompanying notes form part of these financial statements

Notes to the Financial Statements for the year ended 30 June 2009

Note 1 Statement of Significant Accounting Policies

This financial report includes the consolidated financial statements and notes of Phoslock Water Solutions Limited and controlled entities ('Consolidated Group' or 'Group'), and the separate financial statements and notes of Phoslock Water Solutions Limited as an individual parent entity ('Parent Entity'). Phoslock Water Solutions Limited is a listed company incorporated and domiciled in Australia.

Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

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

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

a. Principles of Consolidation

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

A list of controlled entities is contained in Note 14 to the financial statements.

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

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

b. Income Tax

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

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

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

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

Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognized from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

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

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

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

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

Tax Consolidation

Phoslock Water Solutions Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under tax consolidation legislation. Each entity in the group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the 'stand-alone taxpayer' approach to allocation. Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the head entity. Phoslock Water Solutions Ltd is the head entity of the consolidated group.

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

c. Inventories

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

d. Property, Plant and Equipment

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

Plant and equipment

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

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

Depreciation

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

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

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

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

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

e. Leases

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

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

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

f. Financial Instruments

Recognition and Initial Measurement

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

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

Derecognition

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

Classification and Subsequent Measurement

i. Financial assets at fair value through profit or loss

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

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

iii. Held-to-maturity investments

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

iv. Available-for-sale financial assets

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

v. Financial Liabilities

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

Fair value

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

Impairment

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

g. Impairment of Assets

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

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

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

h. Investments in Associates

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

i. Intangibles

Goodwill

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

Phoslock Licence Patents and Trademarks

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

Research and Development

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

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

j. Foreign Currency Transactions and Balances

Functional and presentation currency

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

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

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

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognized in equity, otherwise the exchange difference is recognised in the income statement.

Group Companies

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

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

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

k. Employee Benefits

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

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

Equity-settled compensation

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

l. Provisions

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

m. Cash and Cash Equivalents

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

n. Revenue and Other Income

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

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

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

o. Government Grants

Grants from government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with the attached conditions.

Government grants relating to costs are deferred and recognized in the income statement over the period necessary to match with the costs that they are intended to compensate.

p. Borrowing Costs

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

q. Goods and Services Tax (GST)

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

Receivables and payables in the balance sheet are shown inclusive of GST.

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

r. Comparative Figures

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

s. Critical Accounting Estimates and Judgments

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

Key Estimates—Impairment

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates. Goodwill was fully impaired during the year.

The financial report was authorised for issue on 31st August 2009 by the Board of Directors.

Note 2 Revenue

		Consolidated Group		Parent Entity	
	Note	2009	2008	2009	2008
		\$	\$	\$	\$
Sales Revenue					
— sale of goods		615,438	721,927	-	-
Total Sales Revenue		615,438	721,927	-	-
Other Income					
— interest received	2(a)	31,023	56,805	-	-
— export development/R&D grants		423,673	-	-	-
— foreign currency translation gains		-	55,350	-	-
— other income		15,439	7,397	-	-
Total Other Income		470,135	119,552	-	-
Total Sales Revenue and Other Revenue		1,085,573	841,479	-	-
(a) Interest revenue from:					
— other persons		31,023	56,805	-	-
Total interest revenue		31,023	56,805	-	-

Note 3 Loss for the Year

		Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
(a) Expenses					
Cost of sales		272,684	449,409	-	-
Finance costs:					
— other persons		130,924	49,653	120,000	43,726
Total finance costs		130,924	49,653	120,000	43,726
Bad and doubtful debts:					
— trade receivables		-	13,128	-	-
Rental expense on operating leases					
— minimum lease payments		187,119	199,611	-	-
Loss/(gain) on disposal of property, plant and equipment		45,061	-	-	-
Depreciation of property plant and equipment		176,834	114,198	-	-
Amortisation of non-current assets					
— research and development expenditure		4,951	7,860	-	-
— Phoslock licence, patents and trademarks		336,852	337,647	-	110,100
Total amortization		341,803	345,507	-	110,100
Total depreciation and amortisation		518,637	459,705	-	110,100
Impairment loss comprises:					
— Impairment of obsolete inventory		132,287	-	-	-
— Impairment loss – goodwill		59,393	-	-	-
— Impairment of receivables from wholly owned subsidiaries		-	-	19,758,436	-
— Impairment of investments		30,806	-	20,000	-

Note 4 Income Tax Expense

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
Note	\$	\$	\$	\$
(a) Income tax expense				
— Current year	-	28,018	-	28,018
— Deferred tax	-	-	-	-
	-	28,018	-	28,018
(b) Numerical reconciliation of income tax expense payable Income tax is reconciled to the income tax expense as follows:				
Loss for the year before income tax	(2,749,715)	(3,465,546)	(19,942,514)	(153,922)
Prima facie tax payable on loss from ordinary activities before income tax at 30% (2008 30%)				
— consolidated group	(824,915)	(1,039,664)		
— parent entity			(5,982,754)	(46,177)
Add:				
Tax effect of:				
— non-deductible depreciation and amortisation	101,056	95,062	-	33,030
— other non-allowable items	155,778	1,209	5,946,731	-
— share options expensed during year	8,532	19,406	-	-
— Deferred Tax Asset not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(b) occur	582,324	916,746	36,023	13,147
	22,775	(7,241)	-	-
Less:				
Tax effect of:				
— share of net profits of associates netted directly	-	(7,241)	-	-
— other tax concessions & deductible amounts	22,775	28,018	-	28,018
Income tax attributable to entity	-	(28,018)	-	(28,018)
(c) Unrecognised deferred tax assets Consolidated Group Parent Entity				
Tax losses	19,744,920	17,805,240	647,520	527,443
Potential tax benefit	5,932,476	5,341,572	194,256	158,233
Temporary differences				
Accruals and provisions	182,562	211,163	-	-
Potential tax benefit	54,769	63,349	-	-
Total deferred tax assets not brought to account	5,987,245	5,404,921	194,256	158,233

Note 5 Key Management Personnel Compensation

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

Key Management Person	Position
Dr David Garman	Chairman - Non Executive
Mr Robert Schuitema	Managing Director
Mr Russell Brown	Director - Non Executive
The Hon. Pam Allan	Director - Non Executive
Mr Colin Upcroft (resigned 10 December 2008)	Chief Financial Officer and Company Secretary
Mr Eddie Edmunds	Chief Operating Officer
Mr Nigel Traill	General Manager Europe, Africa and The Middle East
Dr Sarah Groves	General Manager Technical
Mr Andrew Winks	General Manager Operations

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

Key management personnel compensation included in employee benefits is as follows:

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Short term employee benefits	1,088,393	1,172,121	-	-
Post employment benefits	102,800	110,425	-	-
Equity compensation benefits	40,000	49,762	-	-
Total compensation	1,231,193	1,332,308	-	-

- (b) Options and Rights Holdings

Number of Options Held by Key Management Personnel

	Balance 1.07.2008	Options Acquired	Options Exercised*	Options Lapsed/ Forfeited	Balance 30.06.2009	Total Vested 30.06.2009	Total Exercisable 30.06.2009	Total Unexercisable 30.06.2009
Dr David Garman	1,500,000	-	-	(1,000,000)	500,000	-	-	500,000
Mr Robert Schuitema	7,000,000	227,272*	-	(3,000,000)	4,227,272	4,227,272	4,227,272	-
Mr Russell Brown	500,000	-	-	(500,000)	-	-	-	-
The Hon Pam Allan	500,000	-	-	-	500,000	500,000	500,000	-
Mr Colin Upcroft	1,500,000	34,090*	-	(1,500,000)	34,090	34,090	34,090	-
Mr Eddie Edmunds	2,350,000	-	-	(1,350,000)	1,000,000	1,000,000	1,000,000	-
Mr Nigel Traill	1,500,000	90,909*	-	(1,000,000)	590,909	90,909	90,909	500,000
Dr Sarah Groves	400,000	-	-	(150,000)	250,000	-	-	250,000
Mr Andrew Winks	800,000	-	-	(650,000)	150,000	-	-	150,000
Total	16,050,000	352,271*	-	(9,150,000)	7,252,271	5,852,271	5,852,271	1,400,000

*Options issued as part of shares purchase at 11 cents per share plus 1 free option for 4 shares purchased.

(c) Shareholdings

Number of Shares held by Key Management Personnel

	Balance 1.07.2008	Received as Compensation	Options Exercised	Net Change Other*	Balance 30.06.2009
Key Management Personnel					
Dr David Garman	800,000	-	-	-	800,000
Mr Robert Schuitema	2,508,017	-	-	968,871	3,476,888
Mr Russell Brown	-	-	-	-	-
The Hon. Pam Allan	-	-	-	-	-
Mr Colin Upcroft	260,000	-	-	(63,636)	196,364
Mr Eddie Edmunds	-	-	-	-	-
Mr Nigel Traill	2,300,529	200,000	-	363,636	2,864,165
Dr Sarah Groves	-	100,000	-	-	100,000
Mr Andrew Winks	-	100,000	-	-	100,000
Total	5,868,546	400,000	-	1,268,871	7,537,417

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

Note 6 Auditors' Remuneration

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Remuneration of the auditor of the parent entity for:				
— auditing or reviewing the financial report	65,000	58,165	-	-
— non-audit services	-	-	-	-
Remuneration of other auditors of subsidiaries for:				
— auditing or reviewing the financial report of subsidiaries	9,500	8,099	-	-
— non-audit services	-	-	-	-
	74,500	66,264	-	-

Note 7 Earnings per Share

		Consolidated Group	
		2009	2008
		\$	\$
(a) Reconciliation of earnings to profit or loss			
Loss		(2,749,715)	(3,437,528)
Loss attributable to minority equity interest		133,410	35,372
Earnings used to calculate basic EPS		(2,616,305)	(3,402,156)
Earnings used in the calculation of dilutive EPS		(2,496,305)	(3,358,430)
(b) Reconciliation of earnings to loss from continuing operations			
Loss from continuing operations		(2,749,715)	(3,437,528)
Loss attributable to minority equity interest in respect of continuing operations		133,410	35,372
Earnings used to calculate basic EPS from continuing operations		(2,616,305)	(3,402,156)
Earnings used in the calculation of dilutive EPS from continuing operations		(2,496,305)	(3,358,430)
		No.	No.
(c) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS		163,260,725	149,606,935
Weighted average number of options outstanding during the year		7,977,766	2,461,613
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS		171,238,041	152,068,548
The following shares have a significant impact on the number of shares issued after balance date:			
31 July 2009 – exercise of options		681,818	-
10 August 2009 – share placement		4,912,066	-
21 August 2009 – conversion of converting notes and interest		5,912,597	-
25 August 2009 – share placement		4,988,637	-
		16,495,118	-

18,722,413 options issued in the current and prior years and still on issue at 30 June 2009 are not included in the calculation of diluted earnings per share because they are not dilutive for the year ended 30 June 2009. These options could potentially dilute basic earnings per share in the future.

Note 8 Cash and Cash Equivalents

		Consolidated Group		Parent Entity	
Note		2009	2008	2009	2008
		\$	\$	\$	\$
Cash at bank and in hand		327,148	279,360	3,087	3,165
Short-term bank deposits		200,000	70,566	-	-
		527,148	349,926	3,087	3,165
The effective interest rate on short-term bank deposits was 3.00% (2008: 5.5%); these deposits have an average maturity of 120 days.					
Reconciliation of cash					
Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:					
Cash and cash equivalents		527,148	349,926	3,087	3,165
Bank overdrafts	19	-	(316)	-	-
		527,148	349,610	3,087	3,165

Note 9 Trade and Other Receivables

		Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
CURRENT					
Trade receivables		459,048	348,672	-	-
Provision for impairment of receivables	9(a)	-	-	-	-
		459,048	348,672	-	-
Other receivables		57,990	123,204	-	-
		517,038	471,876	-	-
NON-CURRENT					
Trade receivables		361,190	400,000	-	-
Amounts receivable from:					
— wholly owned entities		-	-	-	17,929,885
		361,190	400,000	-	17,929,885

(a) Provision For Impairment of Receivables

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

Receivables from wholly owned subsidiaries were fully impaired during the year.

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

	Opening Balance 1.7.2008	Charge for the Year	Amounts Written Back	Closing Balance 30.6.2009
	\$	\$	\$	\$
Current trade receivables	-	-	-	-
Non-current trade receivables	-	-	-	-
	-	-	-	-

Note 10 Inventories

		Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
CURRENT					
At cost					
Raw materials and stores		121,460	113,838	-	-
Finished goods		940,027	861,435	-	-
		1,061,487	975,273	-	-
At net realisable value					
Finished goods		-	132,287	-	-
		-	132,287	-	-
		1,061,487	1,107,560	-	-

Note 11 Investments Accounted for Using the Equity Method

		Consolidated Group		Parent Entity	
	Note	2009	2008	2009	2008
		\$	\$	\$	\$
Associated companies	12	-	30,806	-	-
		-	30,806	-	-

Note 12 Associated Companies

Interests are held in the following associated companies

Name	Principal Activities	Country of Incorporation	Shares	Ownership Interest		Carrying Amount of Investment	
				2008	2007	2008	2007
				%	&	\$	\$
Unlisted:							
Phoslock Africa Pty Ltd	Phoslock sales	South Africa	Ord	50	50	-	30,806
						-	30,806

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

		Consolidated Group		Parent Entity	
	Note	2009	2008	2009	2008
		\$	\$	\$	\$
Balance at beginning of the financial year		30,806	34,941	-	-
Less: Write-down in Investment		(30,806)	-	-	-
Share of associated company's profit after income tax	12b	-	(4,135)	-	-
Balance at end of the financial year		-	30,806	-	-

(b) Equity accounted profits of associates are broken down as follows:

Share of associate's profit before income tax expense	-	(4,135)	-	-
Share of associate's income tax expense	-	-	-	-
Share of associate's profit after income tax	-	(4,135)	-	-

(c) Summarised Presentation of Aggregate Assets, Liabilities and Performance of Associates

Current assets	-	28,692	-	-
Non-current assets	-	43,922	-	-
Total assets	-	72,614	-	-
Current liabilities	-	11,001	-	-
Non-current liabilities	-	-	-	-
Total liabilities	-	11,001	-	-
Net assets	-	61,612	-	-
Revenues	-	(3,043)	-	-
Profit after income tax of associates	-	(8,270)	-	-

(d) Ownership interest in Phoslock Africa Pty Ltd at that company's balance date was 50% of ordinary shares. The reporting date of Phoslock Africa Pty Ltd is 28 February.

Note 13 Financial Assets

		Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
NON CURRENT					
Available-for-sale financial assets	13a	-	-	4,661,035	4,668,029
		-	-	4,661,035	4,668,029
(a) Available-for-sale financial assets comprise:					
Non Current					
Unlisted investments, at cost					
— shares in controlled entities		-	-	4,661,035	4,668,029
Total non-current available-for-sale financial assets		-	-	4,661,035	4,668,029

Available-for-sale financial assets comprise investments in the ordinary issued capital of various entities.

There are no fixed returns or fixed maturity date attached to these investments.

Note 14 Controlled Entities

(a) Controlled Entities Consolidated

	Country of Incorporation	Percentage Owned (%)*	
		2009	2008
Subsidiaries of Phoslock Water Solutions Limited:			
Phoslock Pty Ltd	Australia	100	100
Phoslock Technologies Pty Ltd	Australia	100	100
Yunnan Jinxingyan Environmental Conservational Consultative	China	100	100
Purezza Marketing Inc	USA	100	100
IETC Environmental Protection Technology (Kunming) Ltd	China	71	71
Phoslock Water Solutions UK Co Ltd	United Kingdom	100	100
Phoslock Europe GmbH	Switzerland	60	-

^{*} Percentage of voting power is in proportion to ownership

Note 15 Property, Plant and Equipment

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Plant and equipment:				
At cost	1,277,356	1,208,227	-	-
Accumulated depreciation	(792,180)	(512,483)	-	-
	485,176	695,744	-	-

(a) Movements in Carrying Amounts

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

	Plant and Equipment	Total
	\$	\$
Consolidated Group:		
Balance at 1 July 2007	843,552	843,552
Additions	60,538	60,538
Disposals	(3,578)	(3,578)
Depreciation expense	(185,921)	(185,921)
Exchange differences	(18,847)	(18,847)
Balance at 30 June 2008	695,744	695,744
Additions	3,385	3,385
Disposals	(76,704)	(76,704)
Depreciation expense	(176,834)	(176,834)
Exchange differences	39,585	39,585
Balance at 30 June 2009	485,176	485,176

Plant and equipment with a book value of \$24,476 (2008: \$30,773) is subject to a finance lease in Note 19.

Note 16 Intangible Assets

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Goodwill				
Cost	401,977	401,977	-	-
Accumulated impaired losses	(401,977)	(342,584)	-	-
Net carrying value	-	59,393	-	-
Trademarks and licences				
Cost	4,153,188	4,105,211	-	1,266,214
Accumulated amortisation and impairment	(1,439,244)	(1,110,709)	-	(272,958)
Intercompany transfers	-	-	-	(993,256)
Exchange differences	-	(14,542)	-	-
Net carrying value	2,713,944	2,979,960	-	-
Development costs				
Cost	323,740	323,740	-	-
Accumulated amortisation and impairment	(258,942)	(253,991)	-	-
Net carrying value	64,798	69,749	-	-
Total intangibles	2,778,742	3,109,102	-	-

Consolidated Group:

	Goodwill	Trademarks & Licences	Development Costs	Total
	\$	\$	\$	
Year ended 30 June 2008				
Balance at the beginning of year	59,393	3,274,336	77,6 09	3,411,338
Additions	-	45,193	-	45,193
Amortisation charge	-	(337,647)	(7,860)	(345,507)
Exchange differences	-	(1,922)	-	(1,922)
Balance as at 30 June 2008	59,393	2,979,960	69,749	3,109,102
Year ended 30 June 2009				
Balance at the beginning of year	59,393	2,979,960	69,749	3,109,102
Additions	-	47,975	-	47,975
Amortisation charge	-	(336,852)	(4,951)	(341,803)
Impairment	(59,393)	-	-	(59,393)
Exchange differences	-	22,861	-	22,861
Closing value at 30 June 2009	-	2,713,944	64,798	2,778,742

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

Impairment Disclosures

The recoverable amount of each intangible asset above is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a 10-year period using estimated growth rates. The cash flows are discounted at a rate of 13% (2008: 10%).

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

Note 17 Other Assets

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
CURRENT				
Prepayments	61,996	39,292	-	-
	61,996	39,292	-	-

Note 18 Trade and Other Payables

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
CURRENT				
Unsecured liabilities				
Trade payables	295,508	247,927	-	-
Sundry payables and accrued expenses	53,840	207,049	-	-
	349,348	454,976	-	-

Note 19 Financial Liabilities

		Consolidated Group		Parent Entity	
	Note	2009	2008	2009	2008
		\$	\$	\$	\$
CURRENT					
Unsecured liabilities					
Bank overdrafts		-	316	-	-
Convertible Notes		1,043,726	943,726	1,043,726	943,726
		1,043,726	944,042	1,043,726	943,726
Secured liabilities					
Lease liability	23	6,883	4,534	-	-
	19(a)	1,050,609	948,576	1,043,726	943,726
NON-CURRENT					
Unsecured liabilities					
Shareholder loan		77,679	-	-	-
Unsecured liabilities					
Lease liability	23	17,592	26,239	-	-
		95,271	26,239	-	-

(a) Convertible Notes

Converting notes were issued as a source of finance on 18 February 2008. The notes mature on 18 August 2009. Interest is payable six monthly at a rate of 12% per annum. Payment of interest and funds due at maturity will be settled by the issue of fully paid shares in the parent company at a price to be determined in accordance with the terms and conditions of the note deed dated 18 February 2008.

Note 20 Provisions

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
CURRENT				
Employee Entitlements				
Opening balance at 1 July 2008	86,372	100,182	-	-
Additional provisions	74,241	81,406	-	-
Amounts used	(81,890)	(95,216)	-	-
Balance at 30 June 2009	78,723	86,372	-	-
NON CURRENT				
Employee Entitlements				
Opening balance at 1 July 2008	49,209	32,697	-	-
Additional provisions	19,930	16,512	-	-
Amounts used	(19,139)	-	-	-
Balance at 30 June 2009	50,000	49,209	-	-
Analysis of Total Provisions				
Current	78,723	86,372	-	-
Non-current	50,000	49,209	-	-
	128,723	135,581	-	-

Provision for Long-term Employee Benefits

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

Note 21 Issued Capital

	Consolidated Group		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
167,805,462 (2008: 150,633,784) fully paid ordinary shares	26,854,352	24,977,235	26,854,352	24,977,235
	26,854,352	24,977,235	26,854,352	24,977,235

	Consolidated Group / Parent Entity			
	2009 No.	2009 \$	2008 No.	2008 \$
(a) Ordinary Shares				
At the beginning of reporting period	150,633,784	24,977,235	148,233,784	24,458,037
Shares issued during year				
— 31-Aug-07	-	-	100,000	25,000
— 29-Nov-07	-	-	2,200,000	500,900
— 30-Jun-08	-	-	100,000	15,000
— 18-Aug-08	358,033	53,705	-	-
— 18-Aug-08	9,561,817	1,051,800	-	-
— 16-Oct-08	5,000,000	550,000	-	-
— 20-Oct-08	39,778	5,966	-	-
— 17-Dec-08	500,000	55,000	-	-
— 24-Feb-09	362,959	54,444	-	-
— 6-Apr-09	420,000	42,000	-	-
— 30-Jun-09	20,000	2,000	-	-
— 30-Jun-09	909,091	100,000	-	-
Transaction Costs	-	(37,798)	-	(21,702)
Balance at end of reporting period	167,805,462	26,854,352	150,633,784	24,977,235

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

- 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 yearend. Refer to Note 26: Share-based Payments.
- For information relating to share options issued to key management personnel during the financial year. Refer to Note 26: Share-based Payments.

(c) Capital Management

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

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

There are no externally imposed capital requirements.

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

There have been no changes in the strategy adopted by management to control the capital of the group since the prior year. This strategy is to ensure that the group's gearing ratio remains below 30%. The gearing ratio's for the year ended 30 June 2009 and 30 June 2008 are as follows:

		Consolidated Group		Parent Entity	
	Note	2009	2008	2009	2008
Total borrowings	18, 19	1,495,228	1,429,791	1,043,726	943,726
Less cash and cash equivalents	8	(527,148)	(349,926)	(3,087)	(3,165)
Net debt		960,080	1,079,865	1,040,639	940,561
Total equity		4,168,826	4,638,934	3,620,396	21,657,353
Total assets		5,792,777	6,204,306	4,664,122	22,597,914
Gearing ratio		17%	17%	22%	4%

Note 22 Reserves

(a) Foreign Currency Translation Reserve

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

(b) Option Reserve

The option reserve records items recognised as expenses on valuation of employee share options.

Note 23 Capital and Leasing Commitments

		Consolidated Group		Parent Entity	
	Note	2009	2008	2009	2008
		\$	\$	\$	\$
(a) Finance Lease Commitments					
Payable — minimum lease payments					
— not later than 12 months		8,788	8,789	-	-
— between 12 months and 5 years		17,850	26,639	-	-
— greater than 5 years		-	-	-	-
Minimum lease payments		26,638	35,428	-	-
Less future finance charges		2,163	4,655	-	-
Recognised as a liability	19	24,475	30,773	-	-
Present value of minimum lease payments					
— no later than 12 months		6,883	4,534	-	-
— between 12 months and 5 years		17,592	26,239	-	-
— greater than 5 years		-	-	-	-
Recognised as a liability	19	24,475	30,773	-	-

The finance lease, secured by a motor vehicle, commenced in 2006, and has a payment period of 4 years with an option to refinance at the end.

(b) Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements

Payable — minimum lease payments

— not later than 12 months	175,153	164,379	-	-
— between 12 months and 5 years	143,261	291,412	-	-
— greater than 5 years	40,584	14,167	-	-
	358,998	469,958	-	-

Lease 1 is a non-cancelable lease expiring 30 September, 2010. Rent is payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments to be increased by the higher of CPI or 4% per annum. An option exists to renew the lease at the end of the three year term for an additional term of three years. The lease allows for subletting of all leased areas.

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

Note 24 Segment Reporting

	Environmental Technologies		Bentonite Mining		Consolidated Group	
	2009	2008	2009	2008	2009	2008
	\$	\$	\$	\$	\$	\$
Primary Reporting — Business Segments						
REVENUE						
External Sales	615,438	721,927	-	-	615,438	721,929
Other segments	439,112	57,715	-	5,030	439,112	62,745
Total segment revenue	1,054,550	779,642	-	5,030	1,054,550	784,674
Unallocated revenue					31,023	56,805
Total revenue					1,085,573	841,479
RESULT						
Segment result	(1,809,539)	(2,447,542)	-	5,032	(1,809,538)	(2,388,754)
Unallocated expenses net of unallocated revenue					((809,253)	(1,023,004)
Finance Costs					(130,924)	(49,653)
Share of net profits of associates and joint venture entities					-	(4,135)
Profit before income tax					(2,749,715)	(3,465,546)
Income tax benefit					-	28,018
Profit after income tax					(2,749,715)	(3,437,528)
ASSETS						
Segment assets	5,358,682	5,671,506	387,540	456,697	5,746,222	6,128,203
Unallocated assets					46,555	76,103
Total assets					5,792,777	6,204,306
LIABILITIES						
Segment liabilities	1,558,653	1,392,848	-	-	1,558,653	1,392,848
Unallocated liabilities					65,298	172,524
Total liabilities					1,623,951	1,565,372
OTHER						
Investments accounted for using the equity method	-	30,806	-	-	-	30,806
Acquisitions of non-current segment assets	51,362	105,731	-	-	51,362	105,731
Depreciation and amortisation of segment assets	518,637	459,705	-	-	518,637	459,705

Secondary Reporting — Geographical Segments

	Segment Revenues from External Customers		Carrying Amount of Segment Assets		Acquisitions of Non-current Segment Assets	
	2009	2008	2009	2008	2009	2008
	\$	\$	\$	\$	\$	\$
Geographical location:						
Australia	120,192	233,752	4,871,649	5,231,427	51,362	98,866
China	7,947	-	781,188	890,727	-	6,262
Europe	394,024	382,279	82,752	-	-	-
United Kingdom	80,214	80,463	62,187	82,154	-	603
Other Countries	13,061	25,433	-	-	-	-
	615,438	721,927	5,797,776	6,204,308	51,362	105,731

Accounting Policies

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of payables, employee benefits, accrued expenses, provisions and financial liabilities.

Intersegment Transfers

Segment revenues, expenses and results include transfers between segments. The prices charged on intersegment transactions are the same as those charged for similar goods to parties outside of the consolidated group at an arm's length. These transfers are eliminated on consolidation.

Business and Geographical Segments**Business segments**

The consolidated group has the following business segments:

- The Environmental Technology segment is responsible for the development, manufacture and distribution of environmental technology products. The main product is Phoslock, a modified clay developed by Australia's Commonwealth Scientific and Industrial Research Organisation.
- The mining segment divested its interest in bentonite mining tenements in 2006 but continues to receive deferred payment royalties paid quarterly based on tons sold from the resource until June 2011.

Geographical segments

The consolidated group's business segments are located in Australia, China, Europe and the UK. Management and administration are based in Australia with manufacturing operations located in China. The Company sales centres are Australia, China and Europe.

Note 25 Cash Flow Information

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
(a) Reconciliation of Cash Flow from Operations with Loss after Income Tax				
Loss after income tax	(2,749,715)	(3,437,528)	(19,942,514)	(125,904)
Cash flows excluded from loss attributable to operating activities				
Non-cash flows in loss				
Amortisation	341,803	345,507	-	110,100
Depreciation	176,834	185,921	-	-
Net exchange differences	301,777	(13,215)	-	-
Impairment of goodwill/ receivables	59,393	-	19,758,436	-
Net (gain)/loss on disposal of property, plant and equipment	45,061	-	-	-
Net loss on disposal of investments	30,806	20,000	20,000	-
Share options expensed	28,440	64,688	-	-
Share issues expensed	44,000	40,000	44,000	-
Interest on Converting Notes	114,116	-	120,000	-
Share of associated companies net loss after income tax	-	4,135	-	-
Changes in assets and liabilities				
(Increase)/decrease in trade and term receivables	(44,172)	(208,036)	-	-
(Increase)/decrease in prepayments	13,428	32,068	-	-
(Increase)/decrease in inventories	46,074	157,783	-	-
Increase/(decrease) in trade payables and accruals	(112,180)	(330,083)	-	43,726
Increase/(decrease) in provisions	(6,858)	2,702	-	-
Net cash provided/(used in) operating activities	(1,711,193)	(3,136,058)	(78)	27,922

Note 26 Share-based Payments

The following share-based payment arrangements existed at 30 June 2009.

During the year the company issued 440,000 shares to executives and consultants.

Number of Shares	Issue Date	Issue Price
420,000	06.04.2009	\$0.10
20,000	30.06.2009	\$0.11

Issue price of shares based on fair value of shares on date of issue.

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

	Consolidated Group				Parent Entity			
	2009		2008		2009		2008	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Outstanding at the beginning of the year	27,322,913	0.28	28,437,913	0.28	27,322,913	0.28	28,437,913	0.28
Granted	5,492,724	0.11	5,400,000	0.44	5,492,724	0.11	5,400,000	0.44
Forfeited	(800,000)	0.40	(1,375,000)	0.37	(800,000)	0.40	(1,375,000)	0.37
Exercised	-	-	(2,200,000)	0.23	-	-	(2,200,000)	0.23
Expired	(10,725,000)	0.27	(2,940,000)	0.20	(10,725,000)	0.27	(2,940,000)	0.20
Outstanding at year-end	21,290,637	0.29	27,322,913	0.32	21,290,637	0.29	27,322,913	0.32
Exercisable at year-end	19,940,637	0.28	17,775,000	0.29	19,940,637	0.28	17,775,000	0.29

5,492,724 options were issued during the year ended 30 June 2009. These options had a weighted average share price of \$0.11 at exercise date.

The options outstanding at 30 June 2009 had a weighted average exercise price of \$0.29 and a weighted average remaining contractual life of 1.05 years. Exercise prices range from \$0.11 to \$0.60 in respect of options outstanding at 30 June 2009.

The weighted average fair value of the options granted during the year was \$0.01

This price was calculated by using a Black Scholes option pricing model applying the following inputs:

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

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

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

Included under employee benefits expense in the income statement is \$72,440 (2008:\$64,688) and relates, in full, to equity settled share-based payment transactions.

Note 27 Events After the Balance Sheet Date

On the 31st July, 2009 681,818 options were exercised at \$0.11 raising funds of \$75,000 for working capital.

On the 10th August 2009 the Company issued 4,912,066 fully paid shares in the parent entity to raise funds of \$540,327 for working capital. The Company also issued 4,912,066 options to acquire shares at 11 cents per share on or before 10th August 2010.

On the 21st August 2009 the Company issued 5,912,597 fully paid shares in the parent entity to repay A\$1,000,000 of Converting Notes by converting the Notes into PWS shares (at 18 cents per share) and interest on the Converting Notes for the six month period to 18 August, 2009 into PWS shares (at 15 cents per share)

On the 25th August 2009 the Company issued 4,988,637 fully paid shares in the parent entity to raise funds of \$548,750 for working capital. The Company also issued 4,988,637 options to acquire shares at 11 cents per share on or before 10th August 2010.

On the 26th August 2009 the Company announced a German lake project with a contract value of over \$500,000 had committed to proceed in October-November 2009.

Note 28 Related Party Transactions

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.					
Transactions with related parties:					
(a) Associated Companies					
Sale of Phoslock granules by Phoslock Pty Ltd to Phoslock Africa Pty Ltd		-	16,643	-	-
Loans with wholly owned subsidiaries		-	-	-	17,929,885
Loans with wholly owned subsidiaries impaired		-	-	19,758,436	-
(b) Ultimate Parent					
Phoslock Water Solutions Ltd is the ultimate parent company					

Note 29 Financial Risk Management

(a) Financial Risk Management Policies

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

i. Financial Risk Exposures and Management

The main risks the group and parent entity 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 and parent entity's exposure to interest rate risk, which is the risk that a financial instruments value will fluctuate as a result of changes in market interest rates is detailed at Note 29 (b). The group's and parent entity's debt exposure is not subject to fluctuating interest rates.

Foreign currency risk

The group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the group's measurement currency. In particular the US dollar and European Euro. This risk is managed by the maintenance of foreign currency denominated bank accounts. Refer to Note 29 (b) for further details.

The parent entity has no significant exposure to foreign currency risk.

Liquidity risk

Liquidity risk is the risk that the group and parent will not be able to meet its financial obligations as they fall due. Management'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 and parent manages liquidity risk by closely monitoring forecast cash flows and ensuring that adequate access to cash facilities are maintained.

Credit risk

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

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

Unlisted available-for-sale financial assets are not rated by external credit agencies. These are reviewed regularly by the Group to ensure that credit exposure is minimised.

The parent entity has no significant exposure to credit risk.

The group and parent entity's financial management policies remain unchanged from previous years.

(b) Financial Instruments

(i) Financial Instrument Composition and Maturity Analysis

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

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing Within 1 Year		Fixed Interest Rate Maturing 1 to 5 years	
	%		\$		\$		\$	
	2009	2008	2009	2008	2009	2008	2009	2008
Consolidated Group Financial Assets:								
Cash and cash equivalents	4.0	4.5	459,542	279,360	67,606	70,566	-	-
Receivables			-	-	-	-	-	-
Total Financial Assets			459,542	279,360	67,606	70,566	-	-

	Fixed Interest Rate Over 5 years		Non - Interest Bearing		Total	
	\$		\$		\$	
	2009	2008	2009	2008	2009	2008
Financial Assets:						
Cash and cash equivalents	-	-	-	-	527,148	349,926
Receivables	-	-	878,228	871,876	878,228	871,876
Total Financial Assets	-	-	878,228	871,876	1,405,376	1,221,802

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing Within 1 Year		Fixed Interest Rate Maturing 1 to 5 years	
	%		\$		\$		\$	
	2009	2008	2009	2008	2009	2008	2009	2008
Consolidated Group Financial Liabilities:								
Bank overdrafts	8.25	8.25	-	316	-	-	-	-
Convertible Notes*	12.0	12.0	-	-	1,043,726	120,000	-	1,060,000
Trade and sundry payables			-	-	-	-	-	-
Lease liabilities	10.0	10.0	-	-	6,883	4,534	17,592	26,239
Shareholder's loan			-	-	-	-	-	-
Total Financial Liabilities			-	316	1,050,609	124,534	17,592	1,086,239

	Fixed Interest Rate Over 5 years		Non - Interest Bearing		Total	
	\$		\$		\$	
	2008	2007	2008	2007	2008	2007
Financial Liabilities:						
Bank overdrafts	-	-	-	-	-	316
Convertible Notes*	-	-	-	-	1,043,726	1,180,000
Trade and sundry payables	-	-	349,348	454,976	349,348	454,976
Lease liabilities	-	-	-	-	24,475	30,773
Shareholder's loan	-	-	77,679	-	77,679	-
Total Financial Liabilities	-	-	427,027	454,976	1,495,228	1,666,065

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

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing Within 1 Year		Fixed Interest Rate Maturing 1 to 5 years	
	%		\$		\$		\$	
	2009	2008	2009	2008	2009	2008	2009	2008
Parent Entity Financial Assets:								
Cash and cash equivalents	4.0	5.0	-	-	-	-	-	-
Receivables			-	-	-	-	-	-
Investments in controlled entities			-	-	-	-	-	-
Total Financial Assets			-	-	-	-	-	-

	Fixed Interest Rate		Non - Interest Bearing		Total Over 5 years	
	\$		\$		\$	
	2009	2008	2009	2008	2009	2008
Financial Assets:						
Cash and cash equivalents	-	-	3,087	3,165	3,087	3,165
Receivables	-	-	-	17,929,885	-	17,929,885
Investments in controlled entities	-	-	4,661,035	4,668,029	4,661,035	4,668,029
Total Financial Assets	-	-	4,664,122	22,601,079	4,664,122	22,601,079

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing Within 1 Year		Fixed Interest Rate Maturing 1 to 5 years	
	%		\$		\$		\$	
	2009	2008	2009	2008	2009	2008	2009	2008
Parent Entity Financial Liabilities:								
Convertible Notes*	12.0	12.0	-	-	1,043,726	120,000	-	1,060,000
Total Financial Liabilities			-	-	1,043,726	120,000	-	1,060,000

	Fixed Interest Rate		Non - Interest Bearing		Total Over 5 years	
	\$		\$		\$	
	2009	2008	2009	2008	2009	2008
Financial Liabilities:						
Convertible Notes*	-	-	-	-	1,043,726	1,180,000
Total Financial Liabilities	-	-	-	-	1,043,726	1,180,000

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Trade and sundry payables are expected to be paid as follows:				
Less than 6 months	349,348	454,976	-	-
6 months to 1 year	-	-	-	-
1-5 years	-	-	-	-
Over 5 years	-	-	-	-
	349,348	454,976	-	-

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

ii. Net Fair Values

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

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

iii. Sensitivity analysis

Interest Rate Risk and Foreign Currency Risk

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

Interest Rate Sensitivity Analysis

As at 30 June 2009, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Change in profit				
– Increase in interest rate by 1 %	5,270	25,917	-	-
– Decrease in interest rate by 1%	(5,270)	(9,456)	-	-
Change in equity				
– Increase in interest rate by 1 %	5,270	25,917	-	-
– Decrease in interest rate by 1%	(5,270)	(9,456)	-	-

Foreign Currency Risk and Sensitivity Analysis

As at 30 June 2009, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the US Dollar, with all other variables remaining constant is as follows:

Change in profit				
– Improvement in AUD to USD by 10%	(337)	40,855	-	-
– Decline in AUD to USD by 10%	410	(52,528)	-	-
Change in equity				
– Improvement in AUD to USD by 10%	(337)	40,855	-	-
– Decline in AUD to USD by 10%	410	(52,528)	-	-

As at 30 June 2009, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the Euro, with all other variables remaining constant is as follows:

Change in profit				
– Improvement in AUD to Euro by 10%	(38,586)	(34,234)	-	-
– Decline in AUD to Euro by 10%	47,996	41,703	-	-
Change in equity				
– Improvement in AUD to Euro by 10%	(38,586)	(34,234)	-	-
– Decline in AUD to Euro by 10%	47,996	41,703	-	-

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

Note 30 Changes in Accounting Policies

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2009 reporting periods. The Group has decided against early adoption of these standards. The Group's and parent entity's assessment of the impact of these new standards and interpretations is set out below:

- i. AASB 8: Operating Segments and AASB 2007-3: Amendments to Australian Accounting Standards arising from AASB 8 (applicable for annual reporting periods commencing from 1 January 2009). AASB 8 introduces a new "management approach" to segment reporting. The changes require identification of operating segments on the basis of internal management reports that are regularly reviewed by the Group's key decision makers for the purposes of assessing performance and the allocation of resources to each segment. While the impact of this standard has not been assessed at this stage, there is the potential for more segments to be identified. Given the lower economic levels at which segments may be defined, and the fact that cash generating units cannot be bigger than operating segments, the allocation of goodwill to reportable segments and impairment calculations may be affected by the change in approach. Management does not presently believe that this will result in any additional impairment of goodwill.
- ii. Revised AASB 123: Borrowing Costs and AASB 2007-6: Amendments to Australian Accounting Standards arising from AASB 123 (applicable for annual reporting periods commencing from 1 January 2009). The revised AASB 123 Borrowing costs removes the option to expense borrowing costs related to qualifying assets. The standard now requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised standard is not expected to have any impact on the group's financial report.
- iii. Revised AASB 101: Presentation of Financial Statements, AASB 2007-8: Amendments to Australian Accounting Standards arising from AASB 101, and AASB 2007-10: Further Amendments to Australian Accounting Standards arising from AASB 101 (all applicable to annual reporting periods commencing from 1 January 2009). The revised AASB 101 and amendments supersede the previous AASB 101 and:
 - redefines the composition of financial statements by requiring the details of all non-owner changes in equity to be presented in a statement of comprehensive income with corresponding changes to the statement of changes in equity. The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by AASBs. The Total Comprehensive Income may be presented as a single statement of income or in an Income Statement and separate Statement of Comprehensive Income.
 - requires disclosure of income tax relating to each component of other comprehensive income
 - requires inclusion of an additional statement of financial position (balance sheet) when an entity applies an accounting standard retrospectively, makes a retrospective restatement, or reclassifies items in its financial statements.
 - requires disclosure of reclassification adjustments relating to components of other comprehensive income
 - requires dividends to owners and related amounts per share to be presented in the Statement of Changes in Equity or the Notes to the financial statements, and not in the Statement of Comprehensive Income.

The revised standard is expected to have a significant impact on the presentation of the consolidated financial statements. The group has not yet determined whether a single Statement of Comprehensive Income or separate Income Statement and Statement of Comprehensive Income will be presented. Other changes to the standard will be prospectively applied to the financial statements of the Group.

- iv. AASB 2008-1: Amendments to Australian Accounting Standard —Share-based Payments: Vesting Conditions and Cancellations [AASB 2] (applicable for annual reporting periods commencing from 1 January 2009). This amendment to AASB 2:
 - clarifies the definition of vesting conditions, and the concept of non-vesting conditions taken to account in determining the fair value at grant date;
 - clarifies that vesting conditions are those conditions that determine whether an entity receives the services that result in the counterparty's entitlement
 - restricts the definition of vesting conditions to include service conditions and performance conditions only.
 - amends the definition of performance conditions to require the completion of a service period in addition to specified performance targets.
 - specifies that cancellations should receive the same accounting treatment whether cancelled by the entity or by another party.

The group has not yet determined the potential effect of the amendment to the financial statements.

- v. Revised AASB 3: Business Combinations, AASB 127: Consolidated and Separate Financial Statements and AASB 2008-3: Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 (applicable for annual reporting periods commencing from 1 July 2009). The revised AASB 3 continues to apply the acquisition method to business combinations, but with some significant changes:
 - all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the income statement.
 - there is a choice on an acquisition-by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.
 - acquisition costs incurred in a business combination will no longer be recognised in goodwill but will be expensed unless the cost relates to issuing debt or equity securities.

The revised AASB 127 requires that:

- the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. These transactions will no longer result in goodwill or gains and losses.
- when control is lost, any remaining interest in the entity is remeasured to fair value and any resulting gain or loss is recognised in profit and loss.

The Group will apply the revised standards prospectively to all business combinations and transactions with noncontrolling interests from 1 July 2009

- vi. AASB 2008-6 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective 1 July 2009). The amendments to AASB 5 Discontinued Operations and AASB 1 First-Time Adoption of Australian-Equivalents to International Financial Reporting Standards are part of IASB's annual improvements project published in May 2008. They clarify that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in a loss of control. Relevant disclosures should be made for this subsidiary if the definition of a discontinued operation is met.

The group will apply the amendments prospectively to all partial disposals from 1 July 2009.

- vii. AASB 2008-7 Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective 1 July 2009). In July 2008, the AASB approved amendments to AASB 1 First-Time Adoption of International Financial Reporting Standards and AASB 127 Consolidated and Separate Financial Statements. The revised rules apply prospectively from 1 July 2009 so that:

- all dividends received from investments in subsidiaries, jointly controlled entities or associates will be recognised as revenue including dividends declared out of pre-acquisition profits i.e. these dividends will no longer be deducted from the cost of the investment. As a result, investments in subsidiaries, jointly controlled entities and associates may need to be tested for impairment when a dividend is paid.
- where there is, in substance, no change to Group interests, parent entities inserted above existing Groups shall measure its investments at the carrying amount of the net assets of the subsidiary rather than the subsidiary's fair value at the date of reorganisation.

- viii. AASB Interpretation 16: Hedges of a Net Investment in a Foreign Operation (applicable for annual reporting periods commencing from 1 October 2008). The Interpretation applies to entities that hedge foreign currency risk arising from net investments in foreign operations and that want to adopt hedge accounting. Interpretation 16 clarifies which foreign currency risks qualify as hedged risk with respect to the hedge of a net investment in a foreign operation and that hedging instruments may be held by any entity or entities within the group. It also provides guidance on how an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item. The interpretation is not expected to impact the Group.

- ix. AASB 2008-8: Amendment to IAS 39 Financial Instruments: Recognition and Measurement (applicable for annual reporting periods commencing from 1 July 2009). AASB 2008-8 amends AASB 139 Financial Instruments: Recognition and Measurement and must be applied retrospectively in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. This amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of fixed rate debt and prohibits including time value in the one-sided hedged risk when designating options as hedges. The amendments are not expected to materially affect the Group.

- x. AASB Interpretation 17: Distributions of Non-cash Assets to Owners and AASB 2008-13 Amendments to Australian Accounting Standards arising from AASB Interpretation 17 (applicable for annual reporting periods commencing from 1 July 2009). This interpretation applies to situations where an entity pays dividends by distributing non-cash assets to its shareholders. The interpretation which applies prospectively, clarifies that non-cash dividends paid or payable should be measured at the fair value of the net assets distributed or to be distributed. Any difference between the fair value and carrying value of the assets is recognised in profit or loss on distribution. The interpretation also clarifies when a liability for a dividend must be recognised and measured at fair value. The Group will apply the interpretation prospectively from 1 July 2009. The group has not yet determined the potential effect of the interpretation.

Note 31 Going Concern

The consolidated entity recorded an operating loss of \$2,616,305 for the year ended 30 June 2009 (2008: loss of \$3,402,156) and has accumulated losses of \$23,935,377 (2008: \$21,319,072) as at 30th June 2009.

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

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

The Company is currently awaiting confirmation to proceed on 11 separate projects with a sales value in excess of \$4,000,000 in our key markets (3 in Australia, 3 in Europe, 3 in Asia, 2 in Canada) over the next 6 months. One of these projects with a contract value of over \$500,000 in Germany has recently committed to proceed with the Phoslock application in October-November 2009.

The Company is also undertaking trial applications in certain key markets where a positive outcome of these trials will lead to a project of significant status getting approval to go ahead. Several of these projects are in the range of \$5-\$10 million sales value. Decisions on some of these projects are expected in the FY2009/10.

The Company's management undertook a major cost containment in late 2007 the benefits of which have partly flowed through in FY2008/09 with the full benefits to be realised in FY2009/10 and beyond. Management expect that cash operating costs for FY2009/10 will be approx \$2,000,000 (net of government grants) based on break even sales of \$3,700,000.

Since 30 June 2009 balance date, the Company has raised approx \$1,162,000 from the exercise of unlisted options in July 2009 and a placement of new shares to both existing shareholders and new shareholders both in Australia and overseas. The effect of the capital raisings has seen consolidated cash increase to approx \$1,400,000 as at the date of this report.

The convertible notes outstanding at 30 June 2009 were converted to equity in terms of the conditions of the note on 18 August 2009. The Company is debt free and had creditors of less than \$30,000 at the date of this report.

The Company has approx 25 million unlisted options on issue at the date of this report. Of these, 9.9 million unlisted options mature on or before 10 August 2010 at an exercise price of 11 cents per share. If all the options were exercised this would raise \$1,090,000 of new equity available to be used by the company.

The Company believes that its current liquidity position along with sales outlook for the next 12 months (and beyond) will generate sufficient cashflow for the company to maintain a strong liquidity base to operate and grow the Phoslock business both in its key markets.

Note 32 Company Details

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

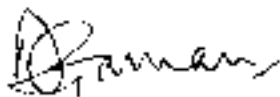
Phoslock Water Solutions Limited
3/81 Frenchs Forest Road
Frenchs Forest NSW 2086 Australia

Directors' Declaration

The directors of the Company declare that:

1. the financial statements and notes, as set out on pages 22 to 54, are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position as at 30 June 2009 and of the performance for the year ended on that date of the Company and consolidated group;
2. the Chief Executive Officer and Chief Finance Officer have declared that:
 - (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - (c) the financial statements and notes for the financial year give a true and fair view;
3. in the director's opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Director

Dr David Garman



Director

Mr Robert Schuitema

Declared this 31st day of August 2009



Trial ponds in Holland

Independent Audit Report

To the members of Phoslock Water Solutions Limited:

Report on the Financial Report

We have audited the accompanying financial report of Phoslock Water Solutions Limited (the Company), which comprises the balance sheets as at 30 June 2009, and the income statements, statements of changes in equity and cash flow statements for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

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

Independence

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

Auditor's Opinion

In our opinion the financial report of Phoslock Water Solutions Limited is in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

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

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

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 7-13 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Phoslock Water Solutions Limited for the year ended 30 June 2009, complies with section 300A of the Corporations Act 2001.



WHK HORWATH



VANESSA DE WAAL

Principal

Brisbane, 31 August 2009

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



Shareholder Information

The shareholder information set out below was applicable at 12 October 2009.

Distribution of Shareholders

a. Analysis of number of shareholders by size of holding:

Category of holding	Number	Number of shares
1 – 1,000	55	19,189
1,001 – 5,000	180	601,402
5,001 – 10,000	192	1,702,451
10,001 – 100,000	708	28,009,386
100,001 shares and over	289	152,968,152
	1,424	184,300,580

b. There are 235 shareholders with less than a marketable parcel of shares.

c. There is one substantial shareholder in the Company's Register of Substantial Shareholders as at 12 October 2009 being:

Name	Number of shares held
Link Traders (Aust) Pty Ltd	23,456,732

Unquoted Securities

As at 12 October 2009 there were 25,698,616 options unquoted as follows:

Options

Number of Options	Number of Holders
25,698,616	115

There is no significant (> 20%) holder of unquoted securities.

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.

Twenty Largest Shareholders

As at 12 October 2009 the twenty largest holders of ordinary shares are listed below:

Name	No of Shares Held	% of Shares Held
1 Link Traders (Aust) Pty Ltd	23,456,732	12.73%
2 Newvest Pty Ltd	8,790,224	4.77%
3 Ludgate Environmental Fund Ltd	7,750,000	4.21%
4 Sail Ahead Pty Ltd	4,456,989	2.42%
5 Paul & Lorraine Cazyer	3,891,002	2.11%
6 Evan Clucas & Leanne Weston	3,852,457	2.09%
7 The Australian National University	3,568,181	1.94%
8 Kevin Tay Hak-Leong	3,435,132	1.86%
9 Robert Bell & Giovanni Filippo	3,100,000	1.68%
10 Nigel Traill	2,955,074	1.60%
11 First Manhattan Securities Pty Ltd	2,904,941	1.58%
12 David Colbran	2,800,000	1.52%
13 Agio Capital Corporation Ltd	2,409,742	1.31%
14 Foster Advertising & Marketing Enterprises Pty Ltd	2,124,701	1.15%
15 Fraser Enterprises Pty Ltd	2,071,759	1.12%
16 National Nominees Ltd	2,001,613	1.09%
17 Quizete Pty Ltd	2,000,000	1.09%
18 Graham Gibson	1,925,337	1.04%
19 Colowell Pty Ltd	1,826,759	0.99%
20 Sahib Nominees Pty Ltd	1,750,000	0.95%
Total	87,070,643	47.24%
Total Shares Issued	184,300,580	100.00%

The background of the entire page is a scenic landscape. It features a calm, blue lake in the foreground. In the middle ground, there are two small boats on the water. To the left, a small motorboat with two people is visible. To the right, a larger, flat-bottomed boat with several people is also on the water. In the background, a range of mountains with significant snow cover stretches across the horizon under a clear, light blue sky. The image is divided into three vertical panels by thin white lines.

PHOSLOCK[®]

Phoslock Water Solutions Ltd.