

PHOSLOCK[®]

Phoslock Water Solutions Ltd.

2011 *Annual Report*



Directory

DIRECTORS

Laurence Freedman AM

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

General Manager – North America

Andrew Winks

General Manager - Operations

Dr Sarah Groves

General Manager - Technical

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Chairman's Report

DEAR FELLOW SHAREHOLDERS

This is my first report to you as Chairman of Phoslock Water Solutions Limited.

Having been a shareholder almost since the Company went public, I was invited to join the Board 12 months ago and became Chairman in March this year.

My increasing involvement revolves around my conviction that the product, Phoslock, which can be of enormous benefit to almost every water body in the world affected by the encroachment of phosphorus, has not achieved the commercial success it deserves.

Accordingly, from the first board meeting I attended, I have given my full attention to bringing a different focus to the Phoslock business – one which should substantially increase both sales and profitability.

The missing link in the past has been ***sales focus***. The business has developed in Europe, but only slowly and not of any size anywhere else. In my opinion, the Company had spent too much time and resources in countries in which it is difficult to make inroads and on matters unrelated to commercial success. Accordingly, management is now limiting the countries in which

we concentrate and at the same time is seeking to maximise sales in those countries. These are:–Europe (including the UK), North America and Australia.

In Europe, Phoslock has now been successfully applied to more than 30 small to medium size lakes. A substantial – and growing – pipeline for future applications is encouraging.

In Australia, a few applications have been made but the level of sales continues to disappoint.

In the United States, a major licensing agreement was recently completed with SePRO Corporation. SePRO is a dynamic water solutions company, with national coverage. The United States is not only a huge potential market, but both governmental and private owners of water bodies are keen to achieve solutions to their water problems. Furthermore, they have a commercial attitude towards finding solutions.

In order to make Phoslock an “off the shelf” product, I have asked management to seek as many external accreditation certifications as possible. By doing this, customers and regulators will have the comfort that Phoslock is a widely accredited product and not feel the need to spend lengthy



“The sales focus is now very clear and is gaining strength every month.”

periods on individual testing procedures. To this end, I am pleased to inform you that we have very recently secured a number of important industry accreditations which, I am sure, will reduce the time period in which Phoslock sales are made. For example, in the United States we have recently achieved some important approvals from the Federal Environmental Protection Agency (EPA). These approvals will enable Phoslock to either substantially reduce or eliminate the heretofore tedious process of individual water body testing. The result, in turn, will empower SePRO to push ahead with its Phoslock sales program.

In Canada, we are in the late stages of an application to the Holland River in Ontario, after long delays to the approval process. I anticipate that this will, in turn, lead to a broadening take up of

applications across the country.

Another matter which frustrated me as a shareholder was the Company's level of communication to shareholders, investment professionals and to the general public. Accordingly, I have initiated a project to redesign the Phoslock website. The new site is designed to inform at three levels – ranging from those people only generally aware of the problems of algae in water, to those with a medium level of knowledge and also to those at a scientific level, in which a higher degree of technical knowledge is imparted. Because the Company often receives new business enquiries from our website, the benefits from this upgrade should further assist the sales effort.

As you will now be aware, I have determined that Phoslock must take a new approach as to how it does

business, how it communicates to customers and to its shareholders. The ultimate success for the Company will be a significantly higher level of sales and, of course, a higher share price.

I thank both my fellow directors, Robert Schuitema and Pam Allan, who have taken up these matters with great enthusiasm. Of course, my thanks also go to our technical and scientific staff and to the now fully-focused and motivated sales team.

I hope to report further progress to you in coming months. Please log on to the new website www.Phoslock.com



Laurence Freedman AM - Chairman



Managing Director's Report



THE COMPANY'S PERFORMANCE FOR FY2010/11 IS SUMMARISED AS FOLLOWS:

- Financial Performance: Revenue was 10% higher for the year. Earnings before Interest, Tax, Depreciation & Amortisation and Impairments (EBITDA) was 10% lower, due to adverse movements in exchange rates.
- Financial Position: Net Assets of \$1.8 million with adequate liquidity. The Company chose to write down the carrying value of the Company's Intellectual Property. The Company maintains a conservative strategy towards retaining adequate liquidity and low levels of leverage and is currently debt free.
- Sales: Increased by 10%, year on year, and would have been 25% higher if exchange rates were constant. Average exchange rates were 20% higher, year on year, reducing company revenue.
- Sales Pipeline: The Company maintains a large pipeline of future projects of both large (greater than 100 tons) and major (greater than 1,000 tons).
- Sales Coverage: During the year the Company signed a major licensee agreement with SePRO Corporation covering the United States. This is potentially a huge market with a history of intervention in water bodies to address issues. Sales coverage remains strong in Australasia, Europe and UK. Canada is developing with approvals received during the year which will assist the business.
- Production: The manufacturing joint venture in China is now in its 8th year and is functioning very well. The factory is operated on a campaign basis to match anticipated demand.
- Employees: Group of experienced professionals specialising in sales, and management of licensees, along with highly specialised technical areas. We are greatly assisted by the work of our licensees around the world.
- New Product Development: The Company continues to work both internally and with external partners on the development of new water treatment products.

FINANCIAL PERFORMANCE FOR FY 2010/11

The financial performance for FY 2010/11 saw Net Profit before Tax before Impairments of negative \$1.99 million versus negative \$1.87 million for FY2009/10. The Directors chose to write down the carrying value of its Intellectual Property. The Company's Intellectual Property is core to the Phoslock business. The Directors believe that the carrying value of the Intellectual Property does not affect the Phoslock business and that nothing has changed to the length of protection afforded to the Company via its patents and trademarks. In future years the Company will benefit through lower amortisation charges of approximately \$350,000 per annum.

Revenues for FY 2010/11 were up 10% to \$2.1 million. These were reduced by approximately \$300,000 due to adverse currency movements during the year. EBITDA was down 10% to negative \$1.4 million, again due to adverse currency movements during the year. Operating expenses, year on year, were 3% higher with slightly higher marketing and administration costs offset by slightly lower employee and occupancy costs.

As at 30 June, 2011 the Company had Net Assets of \$1.8 million made up of cash \$0.5 million, receivables of \$0.9 million, inventories of \$0.8 million, and \$0.2 million of plant & equipment. The only liabilities the Company had were normal

trade creditors of \$0.3 million, and employee provisions of \$0.3 million.

The Company continues to maintain a conservative strategy towards its liquidity and leverage. The immediate focus is to grow its revenues to a level where the Company is cash flow positive then profitable.

PROGRESSION OF THE PHOSLOCK BUSINESS

The Phoslock business is now in its fifth year of development. The demand for this unique product has never been stronger. Poor water quality including harmful algal blooms are a major issue worldwide and the problem is predicted to intensify in coming years due to the effects of climate change. Legislation introduced in recent years in the U.S. and Europe requires water managers to implement measures to reduce phosphorus levels in waterways under their control and therefore doing nothing is no longer an option.

The lead time between the identification of a problem and the implementation of measures to treat the problem can be long. It frequently involves a number

of steps, including the evaluation of treatment options and strategies, dialogue and consensus building between lake authorities, local and central government and the securing of funding for the project. In many instances, well funded dedicated lake authorities or oversight committees are 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 more than 20,000 tons, with the sales process well underway in each case. This pipeline continues to increase, especially in North America, where increased sales coverage has been implemented this year. The Company is beginning to achieve a satisfactory level of project conversion.

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

PWS has several international product certification projects underway, which when finalised, will also significantly assist project approvals.

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

EUROPE & UNITED KINGDOM

The European and U.K. region accounted for approximately 60% of the Company's total sales during the financial year, with sales increasing by 30% over the previous year. This increase was particularly pleasing given the financial crisis in Europe and the significant depreciation of the euro against the Australian dollar during the period.

A number of large and small projects were completed in Europe during the period, with the largest project being the application of 130 tonnes of Phoslock to a well-known recreational lake near Hamburg in Germany. Smaller applications took place in the Netherlands, the U.K. and Poland and the first application of Phoslock to a water body in Finland was completed in mid 2011. Further applications of Phoslock to



Managing Director's Report continued...

water bodies in Germany, the Netherlands and Finland have been confirmed for the coming months while decisions on two major projects in the U.K. are also expected in the near future.

A two year trial on Lake Varese, a fourteen square kilometre lake in Northern Italy, was successfully concluded during the year and the results have been made publically available by the Provincial Government which commissioned the trial. The trial had three major aims: to demonstrate a clear reduction in phosphate levels in enclosures treated with Phoslock; to prevent a release of phosphate from the sediment in the treated enclosures during the summer stratification period and to demonstrate that the application of Phoslock to the lake would have no negative effect on aquatic biota. Each of these aims was achieved and the results have been summarised in reports by Phoslock Europe and two independent research organizations. Discussions about the results of the trial as well as a proposal to apply Phoslock to the entire lake are now underway between the Provincial Government and various stakeholders and it is expected that the restoration plan for the lake will be determined in the coming months.

Retail sales of Phoslock in Germany and France increased by 5% during the period and Phoslock is now sold under various private labels in more than 800 outlets by Dennerle GmbH, a German specialty supplier of products for garden ponds and aquaria. Sales of Phoslock retail products are scheduled to commence in 2012 in the U.K.. The contract between Phoslock Europe and Dennerle was extended by a further 3 years during the year with sales projected to increase by between 10 and

20% per year as a result of the expansion into the U.K. market and the launch of new product lines in Germany and France.

The resources of Phoslock in Europe were further strengthened in September 2010 with the appointment of a U.K. based Freshwater Ecologist.

U.S. AND CANADA

The Company made significant progress during the year developing the Phoslock business in the United States. In addition to the two licensees signed in 2010 covering areas around California and Florida (on a non-exclusive basis), PWS signed a license agreement covering the whole of the United States early in 2011 with SePRO Corporation, a major water quality, aquatic weeds and turf care company with nation wide coverage.

PWS has also undertaken significant work over the last three years to position Phoslock as a key tool for the reduction of phosphorus and the remediation of eutrophied water bodies in Canada. Canadian regulatory authorities have subjected Phoslock to the most stringent tests undertaken anywhere in the world, however the results of these tests have been excellent and Phoslock is now in a position to be widely used in Canada.

PWS recently applied 65 tons to the Holland River which is administered by the Lake Simcoe Regional Catchment Authority (LSRCA), located approx 100 km north of Toronto. The use of Phoslock to reduce phosphorus in areas of high phosphorus loading (particularly the Holland Marsh agricultural area) is an important part of LSRCA's phosphorus reduction strategy.

PWS is working on a number of other projects with other lake authorities in Ontario and other Canadian provinces. Approval to use Phoslock has delayed some of these projects however it is expected that a number of these projects will proceed in 2011-12.

AUSTRALIA

A quarter of the Company's sales were in Australia during 2010-11. The Company completed 10 applications during the year including several which are now treated on an annual basis, given large phosphorus inflows into these water bodies.

The company is working on a number of projects around Australia which include rivers, lakes, waste water ponds and wetlands. These projects range from small to over 100 tons.

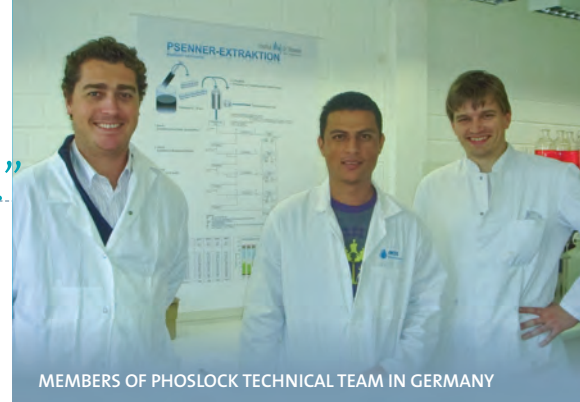
REST OF THE WORLD

PWS has licensees in Brazil, China, Hong Kong and Taiwan. All four licensees are working on various projects with technical input from PWS. PWS and Phoslock Europe are also working on projects in non licensed countries including Singapore, Mexico and parts of southern Africa.

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 historically run on a campaign basis as demand was not sufficient to run the plant full time. The factory recently received Chinese environmental certification until June 2016.

“PWS is currently evaluating two new water treatment technologies.”



MEMBERS OF PHOSLOCK TECHNICAL TEAM IN GERMANY

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 is currently evaluating two new water treatment technologies.

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. I would like to acknowledge the contribution of Dr Garman who retired during the year, after 9 years of service to the company.

A handwritten signature in black ink, appearing to read 'R. Schuitema'.

Mr Robert Schuitema - Managing Director

27th September, 2011



HOLLAND RIVER APPLICATION, CANADA

Director's Report



WESTERN AUSTRALIA - CANNING RIVER APPLICATION

**YOUR DIRECTORS PRESENT THEIR
REPORT ON THE COMPANY AND
ITS CONTROLLED ENTITIES FOR
THE FINANCIAL YEAR ENDED 30TH
JUNE, 2011.**

OPERATING RESULTS

The consolidated loss of the consolidated entity after providing for income tax, non-operating impairment losses and non-controlling interests amounted to \$4,079,239 (2010:(\$1,777,485)). The non operating impairment losses totaled \$2,167,163 made up of the full impairment of the carrying value of company's Intellectual Property amounting to \$2,092,554 and the winding up of two non-operating subsidiaries (one in China and one in the United States) resulting in an impairment of \$74,609.

There were no impairments in 2010 that were not directly related to the company's trading activities.

The net loss from operations for the year was \$1,995,560, down 6% from 2010 (\$1,875,569).

The breakdown of the 2011 net loss by first half and second half was:

6 months to 31 December 2010: (\$1,169,846) 31 December 2009 (\$893,219)

6 months to 30 June 2011: (\$825,714) 30 June 2010 (\$982,350)

The performance of the company for the second half of 2011 was a reduction in loss incurred of \$344,132 over the corresponding first six months of 2011.

DIVIDENDS PAID OR RECOMMENDED

No dividends have been paid or declared for payment in relation to the financial year ended 30 June 2011 (2010:\$Nil).

DIRECTORS

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

Mr Laurence Freedman AM (appointed 20 October 2010)

Dr David Garman (resigned 7 March 2011)

Mr Robert Schuitema

The Hon. Pam Allan

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

COMPANY SECRETARY

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

PRINCIPAL ACTIVITIES

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

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

“The sales outlook for the coming year has improved significantly”

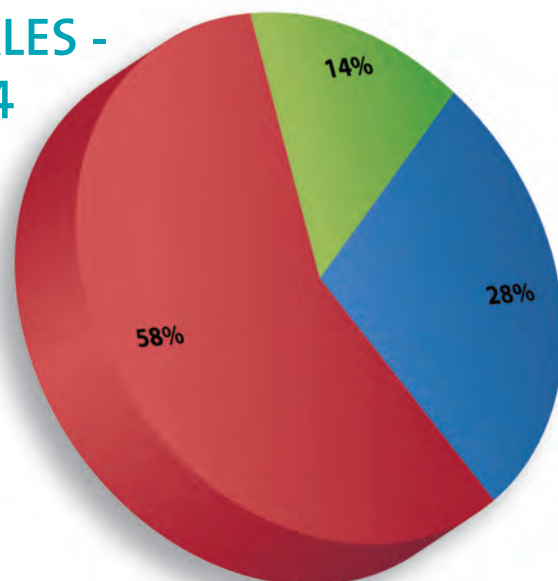


URBAN LAKE IN UK

PWS SALES FY 2010-11 BY REGION

TOTAL SALES - \$1,749,314

■ Australia
■ Europe
■ North America



REVIEW OF OPERATIONS

Revenues recorded for the year of \$2,122,415 represent a 10% increase over the prior year. The major increases were sales in Europe, North America and Australia along with access to Australian Government Grants for both export development and ongoing research and development.

Operating expenses (including depreciation and amortisation, finance and doubtful debts for the year increased by 3.3% to \$2,609,669. This was mainly attributable to higher marketing costs (North America and Europe) and administrative costs offset by slightly lower employee benefit and occupancy costs.

The directors have decided to write down the carrying value of company's Intellectual Property (\$2,092,554) and write off the investment in two non-operating subsidiaries (one in China and one in the United States) resulting in a one time write off of \$74,609. The decision to impair the company's Intellectual Property was based on value in use calculations giving due consideration to the element of uncertainty associated with the conversion of the group's sales pipeline

in future years. The company's Intellectual Property is core to the Phoslock business. The directors believe that the carrying value of the Intellectual Property does not affect the Phoslock business and that nothing has changed to the length of protection afforded to the company via its patents and trademarks. In future years the company will benefit through lower amortisation charges of approx \$350,000 per annum (until 2017-18).

This resulted in a loss for the year of the consolidated entity after providing for non-controlling interests amounted to \$4,079,239 (2010: (\$1,777,485)).

Earnings before depreciation and amortisation, tax and interest and impairment losses (EBITDA) for the year was (\$1,430,895) 10% lower than the previous year (FY2010: \$1,292,228).

Although the Company recorded a loss for the latest financial year the company believes that the outlook for the business remains very positive. Sales of Phoslock products and services for FY2011 were \$1,749,314 a 10% increase over 2010 (\$1,586,873). During 2011 the Company focused on its key markets of Australia,

Europe and UK, North America and aquaculture. Marketing activity in China and other parts of Asia was reduced during the year due to a previous poor sales conversion from this region.

The level of business activity was significantly higher than previous years with 28 commercial applications completed (2010:25). The number of applications completed during the year was 10% higher than the previous year and the average value of the projects was also higher. Approximately one third of the projects completed in 2011 were for repeat customers. In addition, a number of sales were made to aquaculture farmers in Australia, South East Asia and South & Central America. The company is working with experienced aquaculture industry personnel to promote Phoslock to major aquaculture farmers as a tool to help control phosphorus in their grow out ponds.

58% of sales came from the European region, where 30 lake projects have been completed since early 2007. The company has an excellent relationship with our European partner, Bentophos. The

REVIEW OF OPERATIONS CONTINUED

European team has built up a significant database of application results. This has led to a shorter selling process. A number of application case studies along with video clips can be seen on www.phoslock.com.au in the Case Study section accessible from the Home Page. This maturation of the market acceptance of the technology in Europe is expected to be followed in other markets in the coming years.

The company also increased its coverage in Europe/UK during the year with the appointment of two executives – one based in the UK and the other in northern Italy.

Major progress was made during the year in the development of the Phoslock business in North America, and in particular the United States. Our US licensee, SePRO Corporation, has dedicated significant resources to establish Phoslock in this market since taking over the license at the start of this year. Sales to 30 June 2011 reflected only several months of business (in this financial year) however are expected to be significantly higher in 2012.

The company is currently working on 34 separate projects (each greater than \$100,000) in our key markets (3 in Australia, 18 in Europe/UK, 1 in Asia, 10

in North America and 2 in central/south America) with sales decisions due over the next 12 months. In addition, the company is working on 3 projects with application sizes in 1,000-5,000 ton range.

The key to PWS's growth and development is converting its extensive pipeline into sales. PWS is building a business in which it expects to increase sales from the current level of approx 800 tons in 2011 to 1,500 -2,000 tons for 2012 (and higher if any of the large (1,000 ton) applications are secured.

FINANCIAL POSITION

The net assets of the consolidated entity decreased by \$2,926,137 from 30 June 2010 to \$1,777,371 on 30 June 2011. The net decrease is mainly as a result of the operating loss of (\$4,079,239) which included an impairment loss of \$2,167,163 of the carrying value of company's Intellectual Property (\$2,106,185) and the winding up of two non-operating subsidiaries (one in China and one in the United States) resulting in an impairment

loss of \$74,609. The company's Intellectual Property is core to the Phoslock business. The directors believe that the carrying value of the Intellectual Property does not affect the Phoslock business and that nothing has changed to the length of protection afforded to the company via its patents and trademarks. In future years the company will benefit through lower amortization charges of approximately \$350,000 per annum (until 2017-18).

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

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

- (i) Conversion of the current sales pipeline, particularly in Europe and the UK, United States and Canada, and Australia into near terms sales. Phoslock continues to gain industry acceptance in these markets with post application results to date confirming the efficacy of the technology.
- (ii) Rapid expansion in United States and Canadian markets in both lake management and stormwater catchment sectors.

- (iii) Continued progress in the aquaculture market, building on the development of previous years work.
- (iv) When demand justifies additional production capacity, PWS proposes to construct a second Phoslock production facility. 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.

- (v) Evaluation and development of other water treatment products via licensing arrangements or acquisition to add to PWS's product range. PWS is currently evaluating two water related technologies.



OBSERVING HOLLAND RIVER APPLICATION

“The company’s Intellectual Property is core to the Phoslock business.”

GOING CONCERN

The consolidated entity has incurred a significant loss after income tax of \$4,162,723 (2010: \$1,875,569), representing a loss from operations amounting to \$1,995,560 (2010: (\$1,875,569) for the year ended 30 June 2011 in respect of the principal activities relating to the commercialisation of Phoslock and impairment losses of \$2,167,163 (2010: \$nil). The consolidated entity has accumulated losses of \$28,785,348 (2010: \$25,712,862) as at 30 June 2011.

The current year sales from Phoslock amounted to \$1.75 million, which were significantly less than management’s forecast of between \$3 -5 million. The reduced sales in the current year have had an impact on the company’s cashflow and operating performance.

The above matters create a material uncertainty that may cast significant doubt as to the ability of the company to continue as a going concern and, therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The total liabilities of the company as at 30 June 2011 totalled \$859,537 (2010:\$703,947) made up of trade creditors (\$256,974), motor vehicle lease (\$11,887), employee entitlements accrued (\$236,047), loan by joint venture partner to Phoslock Europe (\$271,746) and accrued expenses (\$82,883). The company had no bank debt or external borrowings as at 30 June 2011.

The directors have prepared the financial report of the consolidated entity on the going concern basis, which assumes that the company will be able to discharge its liabilities and realise its assets in the ordinary course of business, on the

following basis:

- The Company has prepared detailed cash flow forecasts and assumptions for the period ending 12 months after the date of this report, and the directors consider that the cash flow forecasts are reasonable in the circumstances to support the Company’s continued going concern.

The budget for 2012 approved by the directors, which underpins the abovementioned cash flow forecasts, is dependent on sales revenue of \$4 million, at the same gross profit margin as the previous year, and cash operating costs of \$2.4 million (net of government grants).

This level of revenue would generate slightly negative cash flows from operations and earnings before interest, income tax, depreciation and amortisation and an estimated consolidated net loss of \$600,000.

The company has trade receivables of \$910,129 as at 30 June, 2011 on normal commercial terms.

Achieving the forecast budget, together with the existing working capital and collection of trade receivables at 30 June 2011, will ensure the company has sufficient funds from existing cash and assets, and generated by operations in the next 12 months to meet its liabilities. Any reduction in sales will require the board to consider capital funding.

The company has forecast operating costs of \$230,000 per month. The company has the ability to contain these costs within the limits set.

The Directors will continue to monitor the Company’s progress against the cash flow forecasts on a regular basis;



RECREATIONAL PARK IN WESTERN AUSTRALIA

- The company is currently working on 34 separate projects (each greater than \$100,000) in its key markets (3 in Australia, 18 in Europe/UK, 1 in Asia, 10 in North America and 2 in central/south America) with sales decisions due over the next 12 months. In addition, the company is working on 3 projects with application sizes in the 1,000-5,000 ton range.
- The Company may undertake an equity raising during 2012 however no decision has been made regarding the amount, the timing, structure of any offering or whether it would be targeted towards existing equity holders or new equity holders (Australian or international), including strategic partners.

The directors consider that any capital raising activities which are required to fund operating cash flow shortages will be successful based on the company’s prior capital raising initiatives.



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.

The factory has recently received Chinese environmental approval until June 2016. 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.



SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

INFORMATION ON DIRECTORS

Mr Laurence Freedman AM	Chairman (Non- executive)
Qualifications	FCPA
Experience	Board member since 20 October 2010. Mr Freedman has a long history and involvement with listed and private companies as both a major shareholder and also as non-executive director. Mr Freedman founded funds management business EquitiLink Group which he sold with his partner in 2000. Mr Freedman is Non Executive Chairman of Carrick Gold Ltd and Condor Metals Ltd.
Interest in Shares & Options	36,557,906 Ordinary Shares in Phoslock Water Solutions Ltd.
Special Responsibilities	Mr Freedman is Chairman of the Remuneration Committee and a Member of the Audit and Compliance Committee.
Mr Robert Schuitema	Managing Director (Executive)
Qualifications	Chartered Accountant (NZ), BCA, INFINZ
Experience	Board member since April 2005, Former Managing Director of investment bank Chase Manhattan and later JP Morgan Chase responsible for the bank's mining, metals and project finance business in Australia and the Asia Pacific region. Mr Schuitema is a Director of Carrick Gold Ltd and Condor Metals Ltd and previously Electo Optical Systems Ltd.
Interest in Shares & Options	6,071,787 Ordinary Shares in Phoslock Water Solutions Ltd.
Special Responsibilities	Mr Schuitema is a Member of the Audit and Compliance Committee.
The Hon. Pam Allan	Director (Non- executive)
Qualifications	B Arts (Hons) Dip.Ed. University of Sydney, Fellow at the Graduate School of Environment, Macquarie University.
Experience	Board member since 2007. 18 years membership of the NSW parliament including 5 years as Minister for the Environment.
Interest in Shares & Options	150,000 Ordinary Shares in Phoslock Water Solutions Ltd.
Special Responsibilities	Ms Allan is a Chairman of the Audit and Compliance Committee and a member of the Remuneration Committee.

REMUNERATION REPORT

THIS REPORT DETAILS THE NATURE AND AMOUNT OF REMUNERATION FOR EACH DIRECTOR AND EXECUTIVE OF PHOSLOCK WATER SOLUTIONS LIMITED.

REMUNERATION POLICY

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

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

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the remuneration committee. The remuneration committee currently comprises only non-executive directors. The company recently adopted the ASX recommendation for the remuneration committee to comprise only non-executive directors. All executives receive a base salary (which is based on factors such as length of service and experience), superannuation and share options or a bonus (if certain milestones

are met). The remuneration committee reviews executive packages annually by reference to the consolidated entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries. Executives and directors do not receive any other retirement benefits.

All remuneration paid to key management personnel is measured at cost to the company and expensed. No options or shares were issued to any director or executive as part of the company's remuneration during 2011.

The board's policy is to remunerate non-executive directors by reference to market rates for comparable companies, time commitment, responsibilities and experience relevant to the industry. The remuneration committee determines payments to non-executive directors and reviews their remuneration annually based on market practice, duties and accountability.

The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by share holders at the Annual General Meeting. The current aggregate maximum sum available for remuneration of non-executive directors is set at \$200,000 per year (approved at



the 2004 Annual General Meeting). Fees for non-executive directors are not linked to the performance of the consolidated entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company and are able to participate in share placements on the same terms as other investors subscribing for shares.

The aggregate of non-executive director fees (including superannuation) for 2011 was \$160,152 (2010: \$140,320). The increase in directors' fees was due to the board comprising three non-executive directors for the period October 2010 to March 2011. As at 30 June 2011, the board comprised two non-executive directors and one executive director. The three directors held 42,779,693 ordinary fully paid shares in the company as at 30 June, 2011 which comprised 20.1% of the total issued shares of the company.



KEY MANAGEMENT PERSONNEL REMUNERATION

	Short-term Employment Benefits			Post Employment Benefits	Long-Term Benefits	Share Based Payments	Total	Performance Related
	Salary, Fees & Commissions	Non-Monetary	Other	Superannuation Contribution	Long Service Leave	Shares & Options		
30 June 2011	\$	\$	\$	\$		\$	\$	%
Mr Robert Schuitema	208,606	—	5,372	21,000	4,500	—	239,478	—
The Hon. Pam Allan	53,952	—	—	—	—	—	53,952	—
Dr David Garman (1)	68,067	—	—	—	—	—	68,067	—
Mr Laurence Freedman (2)	34,667	—	—	3,466	—	—	38,133	—
	365,292	—	5,372	24,466	4,500	—	399,630	—
Specified Executives								
Mr Nigel Traill	125,000	—	45,000	12,500	2,604	—	185,104	—
Mr Eddie Edmunds	180,025	—	—	39,975	5,000	—	225,000	—
Mr Andrew Winks	94,000	—	—	9,400	3,625	—	107,025	—
Dr Sarah Groves	125,000	—	—	12,500	3,542	—	141,042	—
	524,025	—	45,000	74,375	14,771	—	658,171	—
Total	889,317	—	50,372	98,841	19,271	—	1,057,801	—

	Short-term Employment Benefits			Post Employment Benefits	Long-Term Benefits	Share Based Payments	Total	Performance Related
	Salary, Fees & Commissions	Non-Monetary	Other	Superannuation Contribution	Long Service Leave	Shares & Options		
30 June 2010	\$	\$	\$	\$		\$	\$	%
Mr Robert Schuitema	220,000	—	13,484	20,333	—	—	253,817	—
The Hon. Pam Allan	47,564	—	—	4,756	—	—	52,320	—
Dr David Garman (1)	80,000	—	—	8,000	—	—	88,000	—
	347,564	—	13,484	33,089	—	—	394,137	—
Specified Executives								
Mr Nigel Traill	116,667	—	38,800	10,458	—	—	165,925	—
Mr Eddie Edmunds	187,000	—	4,530	24,000	—	—	215,530	—
Mr Andrew Winks	87,001	—	13,763	8,128	642	—	109,534	—
Dr Sarah Groves	117,000	—	—	11,062	4,125	—	132,187	—
	507,668	—	57,093	53,648	4,767	—	623,176	—
Total	855,232	—	70,577	86,737	4,767	—	1,017,313	—

(1) Resigned 7 March 2011

(2) Appointed 20 October 2010



APPLICATION TO RESIDENTIAL COMMUNITY COMMUNITY WATERBODY IN AUSTRALIA

REMUNERATION

Executive directors and executives were not paid performance based bonuses during the year. No executive director received any share or option based remuneration during the year. The remuneration committee will consider future bonuses to encourage achievement of specific goals that have been given a high level of importance in relation to the future growth

and profitability of the consolidated entity. The remuneration committee will review performance bonuses to gauge their effectiveness against achievement of the set goals, and adjust future years' incentives as they see fit, to ensure use of the most cost effective and efficient methods.



LAKE VARESE TRIAL APPLICATION, ITALY

SHARES AND OPTIONS ISSUED AS PART OF REMUNERATION FOR THE YEAR ENDED 30 JUNE 2011

No shares or options were issued to directors or executives as remuneration during the year. Directors and executives were invited to participate in the share placement in October 2010 on the same terms as shareholders who participated in the share placement. The allotment of 2,500,000 shares to directors was approved at the company's AGM on 25th November, 2010.

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

	Balance 1.07.2010	Received as Compensation	Options Exercised	Net Charge Other*	Balance 30.06.2011
	No.	No.	No.	No.	No
Key Management Personnel					
Dr David Garman (1)	1,027,273	—	—	(1,027,273)	—
Mr Laurence Freedman (2)	-	—	—	36,557,906	36,557,906
Mr Robert Schuitema	4,571,787	—	—	1,500,000	6,071,787
The Hon. Pam Allan	150,000	—	—	—	150,000
Mr Eddie Edmunds	90,909	—	—	—	90,909
Mr Nigel Traill	2,955,074	—	—	400,000	3,355,074
Dr Sarah Groves	190,909	—	—	—	190,909
Mr Andrew Winks	100,000	—	—	—	100,000
Total	9,085,952	—	—	37,430,633	46,516,585

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

Directors or senior executives who own shares and joined/left the Company during the year are shown in Net Charge Other.

(1) Resigned 7 March 2011

(2) Appointed 20 October 2010



LAKE APPLICATION IN PERTH, WA

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

	Balance 1.07.2010	Options Acquired*	Options Exercised	Net Charge Other*	Balance 30.06.2011	Total Vested 30.06.2011	Total Exercisable 30.06.2011	Total Unexercisable
	No.	No.	No.	No.	No.	No.	No.	No.
Dr David Garman (1)	227,272	—	—	(227,272)	—	—	—	—
Mr Laurence Freedman (2)	—	—	—	—	—	—	—	—
Mr Robert Schuitema	2,454,545	—	—	(2,454,545)	—	—	—	—
The Hon. Pam Allan	400,000	—	—	(400,000)	—	—	—	—
Mr Eddie Edmunds	90,909	—	—	(90,909)	—	—	—	—
Mr Nigel Traill	90,909	—	—	(90,909)	—	—	—	—
Dr Sarah Groves	90,909	—	—	(90,909)	—	—	—	—
Mr Andrew Winks	—	—	—	—	—	—	—	—
Total	3,354,544	—	—	(3,354,544)	—	—	—	—

*The Net Charge Other column above includes those options that have lapsed during the year.

(1) Resigned 7 March 2011

(2) Appointed 20 October 2010



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

	2011		2010	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
		\$		\$
Outstanding at the beginning of the year	21,084,434	0.20	21,290,637	0.28
Granted	—		13,032,521	0.11
Forfeited	—		(1,350,000)	0.50
Exercised	—		(681,818)	0.11
Expired/Lapsed	(20,784,434)	0.20	(11,210,907)	0.25
Outstanding at year-end	300,000	0.15	21,084,434	0.20
Exercisable at year-end	300,000	0.15	21,084,434	0.20



The 300,000 options outstanding at 30 June 2011 had a weighted average exercise price of \$0.15 and a weighted average remaining contractual life of 0.9 years. Exercise price for the options outstanding at 30 June 2011 is \$0.15.

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

Equity settled share-based payments included under employee benefits expense in the statement of comprehensive income is \$0(2010:\$0).

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

Options lapsed during the current financial year were granted as either compensation to executives or issued to investors as part of an equity placement in prior periods.

	Options granted as Remuneration	Total Remuneration represented by Options	Options Exercised	Net Charge Other*	Balance 30.06.2011	Total Vested 30.06.2011
	\$	%				
Dr David Garman (1)	—	—	—	—	(227,272)	(227,272)
Mr Laurence Freedman (2)	—	—	—	—	—	—
The Hon. Pam Allan	—	—	—	—	(400,000)	(400,000)
Mr Robert Schuitema	—	—	—	—	(2,454,545)	(2,454,545)
Mr Nigel Traill	—	—	—	—	(90,909)	(90,909)
Mr Eddie Edmunds	—	—	—	—	(90,909)	(90,909)
Mr Andrew Winks	—	—	—	—	—	—
Dr Sarah Groves	—	—	—	—	(90,909)	(90,909)

(1)Resigned 7 March 2011 (2)Appointed 20 October 2010

Value of options that lapsed as are a result of vesting conditions not being fulfilled was \$139,091.

EMPLOYMENT CONTRACTS OF DIRECTORS AND SENIOR EXECUTIVES

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

Employment contracts stipulate arrangement 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 anytime. No Directors or Senior Executives have any options outstanding as at 30 June 2011 (2010:3,081,817).



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
22-Oct-09	30-Sept-11	\$0.15	150,000
22-Oct-09	30-Sept-12	\$0.15	150,000
			300,000

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

Details of options outstanding at 30 June 2011 including options issued, exercised and forfeited are detailed at Note 24.

MEETINGS OF DIRECTORS

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

Directors' Meeting			Committee Meetings			
			Audit & Compliance		Remuneration	
	Number Eligible to attend	Number Attended	Number Eligible to attend	Number Attended	Number Eligible to attend	Number Attended
Dr David Garman (1)	6	6	1	1	1	1
Mr Laurence Freedman (2)	8	7	1	1	1	1
Mr Robert Schuitema	10	10	2	2	-	-
The Hon. Pam Allan	10	10	2	2	1	1

(1) Resigned 7 March 2011 (2) Appointed 20 October 2010

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

INDEMNIFYING OFFICERS OR AUDITOR

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

The Company has paid premiums totaling \$37,467 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.

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.



Mr Robert Schuitema - Managing Director

Dated this 30th day of August 2011

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 2011 has been received and can be found on page 16 of the directors' report.

POST BALANCE DATE EVENTS

No material events have occurred since 30 June 2011.

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



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

Dated this 30th day of August 2011

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- *Patented Phosphorus Locking Technology*
- *Rapid & Permanent Removal of Bio-available Phosphorus*
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Auditor's Independence declaration under section 307C of the Corporations Act 2001 to the Directors of Phoslock Water Solutions Limited



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 2011, there have been:

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

Signed at Brisbane 31 August 2011.

Crowe Horwath Brisbane

Crowe Horwath Brisbane

Vanessa de Waal

V de Waal

Partner

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Each member firm of Crowe Horwath is a separate and independent legal entity

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Corporate Governance

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

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

Composition of the Board

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

- The Board should consist of at least 3 Directors, increasing where additional expertise is considered desirable in certain areas.
- The majority of the Board members should be Independent Non-Executive Directors.
- The Chairman of the Board should be an Independent Non-Executive Director.
- Directors should bring characteristics which allow a mix of qualifications, skills and experience both nationally and internationally.
- All available information in connection with items to be discussed at a meeting of the Board shall be provided to each Director prior to that meeting.

The Board will review its composition on an annual basis to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, for whatever reason, or where it is

considered that the Board would benefit from the services of a new Director with particular skills, the Board will select appropriate candidates with relevant qualifications, skills and experience. External advisers may be used to assist in such a process. The Board will then appoint the most suitable candidate, who must stand for election at the next general meeting of shareholders.

The primary responsibilities of the Board include:

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

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

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

Independent professional advice

Each Director will have the right to seek independent professional advice at the Company's expense.

The prior approval of the Chairman will be required, which will not be unreasonably withheld.

Remuneration

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

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

Audit committee

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

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

The responsibilities of the Audit Committee include:

- Monitoring compliance with regulatory requirements;
- Improving the quality of the accounting function;
- Reviewing external audit reports to

ensure that where major deficiencies or breakdowns in controls or procedures have been identified appropriate and prompt remedial action is taken by management; and

- Liaising with the external auditors and ensuring that the annual audit and half-year review are conducted in an effective manner.

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

Business risk

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

Specific areas of risk identified initially and regularly considered at Board Meetings include risks associated with business and investment, new and rapidly evolving markets, technological change, competition and business and strategic alliances, the environment and continuous disclosure obligations.

Ethical standards

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

Trading in Phoslock Water Solutions Limited Securities

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

Authority limits

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

Confidentiality

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

Dealing with conflicts of interest

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

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

A conflict will arise:

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

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



Corporate Governance

ASX PRINCIPLE

COMPANY STATUS & REFERENCE / COMMENT

Principle 1: Lay solid foundations for management and oversight.

Formalise and disclose the functions reserved to the board and those delegated to management.

A The Company has formalised and disclosed the functions reserved to the Board and those delegated to management. The Company has a small Board consisting of three Directors, two of whom are Non-Executive.

The full Board currently meets every 4-6 weeks. In addition, strategy meetings and any extraordinary meetings are held at such other times as may be necessary to address any specific significant matters

Principle 2: Structure the board to add value

2.1 A majority of board members should be independent directors.

A Two of the three Directors are independent Non-Executives.

2.2 The chairperson should be an independent director.

A The Company has an independent Chairman.

2.3 The roles of chair person and chief executive officer should not be exercised by the same individual.

A The positions of Chairman and Managing Director are not held by the same person.

2.4 The board should establish a nomination committee.

A The board has a Nomination Committee. For the time being, all Directors are members of the Committee.

2.5 The company should disclose the process for evaluating the performance of the board.

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

2.6 Provide the information indicated in Guide to reporting on Principle 2.

A The skills and experience of directors are set out in the Company's Annual Report and on its website.

Principle 3: Promote ethical and responsible decision making

3.1 Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:

A The Company has formulated a Code of Conduct which can be viewed on the Company's website.

3.1.1 the practices necessary to maintain confidence in the company's integrity.

The board continues to review existing procedures over time to ensure adequate processes are in place.

3.1.2 the responsibility and accountability of individuals for reporting or investigating reports of unethical practices.

All directors, employees and contractors are expected to act with the utmost integrity and objectivity in their dealings with other parties, striving at all times to enhance the reputation and performance of the company.

3.2 Establish a diversity policy with measurable objectives and monitor through an annual assessment process.

A The Board is committed to diversity of its employees. As the consolidated entity grows in size and the Company will have greater flexibility with its diversity policy.

3.3 Disclose the policy and measurable objectives concerning gender diversity

A The Company will take gender diversity into consideration as it grows in size and has a larger employment base.

3.4 The Consolidated entity should disclose in the annual report the proportion of women employed in the organisation, in senior roles and on the Board.

A 10% of current employees are female. One of the three Directors is female.

3.5 Provide the information indicated in guide to reporting on Principle 3.

A Website and annual report.

Principle 4: Safeguard integrity in financial reporting

4.1 The board should establish an audit committee

A The Company has established an Audit Committee.

4.2 Structure the audit committee so that it consist of:

A The Audit Committee currently consists of two independent Directors. The charter for this Committee is disclosed on the Company's website.

– Only Non-Executive Directors

– A majority of independent directors

– An independent chairperson who is not the chairperson of the board

The chair of the Audit Committee is not the Chairman of the Board. All Audit Committee members are financially literate, and the chair is a qualified accountant.

– At least three members.

4.3 The audit committee should have a formal charter

A The Audit Committee has a formal charter.

4.4 Provide the information indicated in Guide to reporting on Principle 4.

A A copy of the charter is on the Company's website.

Principle 5: Make timely and balanced disclosure

5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.	A	The Company has instigated internal procedures designed to provide reasonable assurance as to the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with relevant laws and regulations. The Board is acutely aware of the continuous disclosure regime, and there are strong informal systems in place to ensure compliance, underpinned by experience.
5.2	Provide the information indicated in Guide to reporting on Principle 5.	A	The Company publishes and releases the ASX quarterly reports on cash flow as well as annual and half-yearly results.

Principle 6: Respect the rights of shareholders

6.1	Design and disclose a communications strategy to promote effectiveness communication with shareholders and encourage effective participation at general meetings.	A	In line with adherence to continuous disclosure requirements of ASX, all shareholders are kept informed of material developments affecting the Company. Shareholders are encouraged to exercise their right to vote, either by attending meetings, or by lodging a proxy. The Company's auditors attend all shareholders' meetings.
6.2	Provide the information indicated in Guide to reporting on Principle 6.	A	This disclosure is through regular shareholder communications including the Annual Report, Quarterly Reports, the Company website and this distribution of specific releases covering major transactions or events, as they arise.

Principle 7: Recognise and manage risk

7.1	The board or appropriate board committee should establish policies on risk oversight and management.	A	The Board recognises its responsibility for identifying areas of significant business risk and for ensuring that arrangements are in place for adequately managing these risks. This issue is regularly reviewed at board meetings and risk management culture is encouraged amongst employees and contractors.
7.2	The Board should require management to design and implement the risk management and internal control system.	A	Determined areas of risk which are regularly considered include: <ul style="list-style-type: none"> – Performance and funding of commercial activities – Budget control and asset protection – Compliance with government laws and regulations – Safety and the environment – Continuous disclosure obligations.
7.3	The board should disclose that it has received assurance from the CEO/CFO in accordance with section 295A of the Corporations Act 2001.	A	Disclosure in directors' report.
7.4	Provide information indicated in Guide to reporting on Principle 7.	A	Website and reports from management.

Principle 8: Remunerate fairly and responsibly

8.1	The board should establish a Remuneration Committee.	A	The Board has established a Remuneration Committee
8.2	The Remuneration Committee should be structured such that it:- <ul style="list-style-type: none"> (i) Contains majority of independent directors. (ii) Is chaired by an independent director. (iii) Has at least three members. 	A	The Remuneration Committee consists of 3 members, has majority Non-Executive directors and is chaired by an Non-Executive director.
8.3	Clearly distinguish the structure of non executives directors' remuneration from that of executives.	A	The company discloses remuneration related information in its Annual Report to shareholders in accordance with the Corporations Act 2001. Remuneration levels are determined by the board on an individual basis, the size of the company making individual assessment more appropriate than formal remuneration policies. The policy disclosed in the remuneration report distinguishes between Non-Executive Directors and Senior Managers.
8.4	Provide information indicated in Guide to reporting on Principle 8.	A	Website and annual report.

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2011

	Note	2011	2010
		\$	\$
Sales Revenue	2	1,749,314	1,586,873
Cost of Sales		(982,789)	(708,859)
Gross Profit		766,525	878,014
Other revenue	2	373,101	355,953
Distribution expenses		(103,794)	(99,887)
Marketing expenses		(387,916)	(347,468)
Occupancy expenses		(122,096)	(132,875)
Administrative expenses		(637,222)	(618,058)
Employee benefits expense		(1,319,493)	(1,327,907)
Depreciation and amortisation	3	(448,786)	(499,743)
Finance costs		(64,746)	(83,598)
Impairment of receivables		(51,133)	-
Loss from operations	3	(1,995,560)	(1,875,569)
Impairment of intellectual property/investments	3	(2,167,163)	-
Loss before income tax		(4,162,723)	(1,875,569)
Income tax expense	4	-	-
Loss for the year		(4,162,723)	(1,875,569)
Other comprehensive income			
Exchange differences arising on translation of foreign controlled entities		(69,786)	18,327
Total comprehensive income / (loss)		(4,232,509)	(1,893,896)
Loss for the year attributable to:			
- owners of parent entity		(4,079,239)	(1,777,485)
- non-controlling interests		(83,484)	(98,084)
Total loss for the year		(4,162,723)	(1,875,569)
Total comprehensive income / (loss) attributable to:			
- owners of parent entity		(4,121,119)	(1,794,401)
- non-controlling interests		(111,390)	(99,495)
		(4,232,509)	(1,893,896)
Earnings per share			
Basic earnings per share (cents per share)	7	(1.97)	(1.02)
Diluted earnings per share (cents per share)	7	(1.97)	(0.98)

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

for the year ended 30 June 2011

Consolidated Group			
	Note	2011	2010
		\$	\$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	509,588	462,883
Trade and other receivables	9	910,129	972,718
Inventories	10	796,114	1,138,302
Other current assets	14	63,333	68,425
TOTAL CURRENT ASSETS		2,279,164	2,642,328
NON-CURRENT ASSETS			
Trade and other receivables	9	192,517	-
Property, plant and equipment	12	165,227	322,085
Intangible assets	13	-	2,443,042
TOTAL NON-CURRENT ASSETS		357,744	2,765,127
TOTAL ASSETS		2,636,908	5,407,455
CURRENT LIABILITIES			
Trade and other payables	15	339,857	364,664
Financial liabilities	16	9,510	17,593
Short-term provisions	17	144,318	118,255
TOTAL CURRENT LIABILITIES		493,685	500,512
NON-CURRENT LIABILITIES			
Financial liabilities	16	274,123	130,977
Other long-term provisions	17	91,729	72,458
TOTAL NON-CURRENT LIABILITIES		365,852	203,435
TOTAL LIABILITIES		859,537	703,947
NET ASSETS		1,777,371	4,703,508
EQUITY			
Issued capital	18	30,589,302	29,282,930
Reserves	19	155,390	1,204,023
Accumulated losses		(28,785,348)	(25,712,862)
Owners interest		1,959,344	4,774,091
Non-controlling interest		(181,973)	(70,583)
TOTAL EQUITY		1,777,371	4,703,508

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2011

	Note	Issued Capital Ordinary	Option reserves	Foreign currency translation reserves	Non controlling Interests	Accumulated losses	Total
30 June 2010		\$	\$	\$	\$	\$	\$
Balance at 1 July 2009		26,854,352	1,006,753	214,186	28,912	(23,935,377)	4,168,826
Total comprehensive income							
Net loss for the year		-	-	-	(98,084)	(1,777,485)	(1,875,569)
Exchange differences arising on translation of foreign controlled subsidiaries		-	-	(16,916)	(1,411)	-	(18,327)
Total comprehensive income		-	-	(16,916)	(99,495)	(1,777,485)	(1,893,896)
Transactions with owners in their capacity as owners		-					
Shares issued during the year		2,466,133	-	-	-	-	2,466,133
Transaction costs		(37,555)					(37,555)
Total transactions with owners in their capacity as owners		2,428,578	-	-	-	-	2,428,578
Balance at 30 June 2010		29,282,930	1,006,753	197,270	(70,583)	(25,712,862)	4,703,508
30 June 2010							
Balance at 1 July 2010		29,282,930	1,006,753	197,270	(70,583)	(25,712,862)	4,703,508
Total comprehensive income							
Net loss for the year		-	-	-	(83,484)	(4,079,239)	(4,162,723)
Exchange differences arising on translation of foreign controlled subsidiaries		-	-	(41,880)	(27,906)	-	(69,786)
Total comprehensive income		-	-	(41,880)	(111,390)	(4,079,239)	(4,232,509)
Transactions with owners in their capacity as owners							
Shares issued during the year		1,320,000	-	-	-	-	1,320,000
Transaction costs		(13,628)	-	-	-	-	(13,628)
Total transactions with owners in their capacity as owners		1,306,372	-	-	-	-	1,306,372
Transfer Option Reserves		-	(1,006,753)	-	-	1,006,753	-
Balance at 30 June 2010	4	30,589,302	-	155,390	(181,973)	(28,785,348)	1,777,371

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 30 June 2011

Consolidated Group			
	Note	2010	2009
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		2,122,307	1,887,189
Interest received		20,359	11,539
Payments to suppliers and employees		(3,355,462)	(3,229,895)
Finance costs		(64,743)	(61,767)
Net cash provided by (used in) operating activities	22a	(1,277,539)	(1,392,934)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		24,997	1,565
Purchase of property, plant and equipment		(4,550)	(15,015)
Purchase of other non-current assets		-	(14,708)
Net cash used in investing activities		20,447	(28,158)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		1,192,500	1,330,577
Proceeds from borrowings		140,769	74,398
Repayment of borrowings		(5,706)	(6,882)
Transaction costs		(13,628)	(37,555)
Net cash provided by (used in) financing activities		1,313,935	1,360,538
Net increase in cash and cash equivalents held		56,843	(60,554)
Cash and cash equivalents at beginning of financial year		462,883	527,148
Effect of exchange rates on cash holdings in foreign currencies		(10,138)	(3,711)
Cash and cash equivalents at end of financial year	8	509,588	462,883

The accompanying notes form part of these financial statements.

Notes to the financial statements for the year ended 30 June 2011

Note 1 Statement of Significant Accounting Policies

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

Basis of Preparation

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

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

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

Basis of Reporting

The Corporations Amendment (Corporate Reporting Reform) Bill 2010, which came into effect for the financial year ended 30 June 2010, has abolished the need to include parent entity financial statements within the consolidated financial statements prepared under the Corporations Act 2001. The company has therefore not included the parent entity financial statements in these financial statements, which now only represent the consolidated position, results and cash flows. The company has included the parent entity disclosures required by the Corporations Amendment (Corporate Reporting Reform) Bill 2000 in Note 11 to the financial statements.

(a) Principles of Consolidation

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

A list of controlled entities is contained in Note 11 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. Non controlling interest in the equity and results of the entities that are controlled are shown as a separate item in the consolidated statement of financials position and statement of comprehensive income.

(b) Revenue and Other Income

Revenue is measured at the fair value of consideration received or receivable, net of discounts. Revenue is recognised to the extent that it is probable that economic benefits will flow to the group, and revenue can be reliably measured.

Revenue from the sale of goods is recognised at the point of 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).

(c) Foreign Currency Transactions and Balances

Functional and presentation currency

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

Transaction and balances

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

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

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

Group Companies

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

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

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

(d) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

(e) Employee Benefits

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

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

Equity-settled compensation

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

(f) Borrowing Costs

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

Notes to the financial statements

for the year ended 30 June 2011

(g) 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 recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

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

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

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

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

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

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

(h) Goods and Services Tax (GST)

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

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

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

(i) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial performance.

(j) Trade receivables

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

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

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

(k) 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.

(l) 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.

Notes to the financial statements

for the year ended 30 June 2011

Depreciation

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

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

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

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

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

(m) Leases

Leases of fixed assets where substantially all of 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 capitalised 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.

(n) 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 statement of comprehensive income.

(o) 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.

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.

(p) Intangibles

Phoslock Licence Patents and Trademarks

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

Research and Development

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

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

(q) Trade and other payables

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

(r) 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.

Notes to the financial statements

for the year ended 30 June 2011

(s) Borrowings

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

(t) Share Capital

(i) Contributed equity

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

(ii) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing: the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account: the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(u) Segment reporting

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

(v) Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are as follows:

(i) Income taxes

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

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

(w) Comparative Figures

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

(x) Changes in Accounting Policies

There have been no changes in Accounting policies during the year.

New Standards and Interpretations not yet Adopted

The following standards, amendments to standards and interpretations have been identified as those which any impact the entity in the period of initial application. They are available for early adoption at 30 June 2011, but have not been applied in preparing this financial report.

(i) AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards

arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013) AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities.

The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard will affect in particular the group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. There will be no impact on the

group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The derecognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed. The consolidated entity has not yet determined the potential effect of the standard.

(ii) Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The group will apply the amended standard from 1 July 2011. When the amendments are applied, the group will need to disclose any transactions between its subsidiaries and its associates. However, there will be no impact on any of the amounts recognised in the financial statements. The financial report was authorised for issue on 30th August 2011 by the Board of Directors.

Notes to the financial statements

for the year ended 30 June 2011

Note 2 Revenue

Consolidated Group			
	Note	2011	2010
		\$	\$
Sales Revenue			
- sale of goods		1,749,314	1,586,873
Total Sales Revenue		1,749,314	1,586,873
Other Income			
- interest received	2(a)	20,359	11,539
- export development/ r&d grants		382,963	333,805
- foreign currency translation gains		(44,038)	9,166
- other income		13,817	1,443
Total Other Income		373,101	355,953
Total Sales Revenue and Other Income		2,122,415	1,942,826
(a) Interest revenue from:			
- other persons		20,359	11,539
Total interest revenue		20,359	11,539

Note 3 Loss for the Year

Consolidated Group			
	Note	2011	2010
		\$	\$
(a) Expenses			
Cost of sales		982,789	708,859
Finance costs:			
- other persons		64,746	83,598
Total finance costs		64,746	83,598
Rental expense on operating leases			
- minimum lease payments		122,096	132,875
Loss/(gain) on disposal of property, plant and equipment		13,817	(1,443)
Depreciation of property plant and equipment		109,600	162,363
Amortisation of non-current assets			
- research and development expenditure		7,624	7,624
- Phoslock licence, patents and trademarks		331,562	329,756
Total amortization		339,186	337,380
Total depreciation and amortization		448,786	499,743
Impairment of intangibles			
Phoslock licence, patents and trademarks		2,043,004	-
Capitalised development cost		49,550	-
		2,092,554	-
Impairment of investments in subsidiary companies		74,609	-
Total impairments of intangibles and investments		2,167,163	-

Note 4 Income Tax Expense

Consolidated Group			
	Note	2011	2010
		\$	\$
(a) Income tax expense			
- Current year		-	-
- Deferred tax		-	-
		-	-
(b) Numerical reconciliation of income tax expense is reconciled to the income tax expense as follows:			
Loss for the year for income tax		(4,162,723)	(1,875,569)
Prima facie tax payable on loss from ordinary activities before income tax at 30% (2010 30%)			
- consolidated group		(1,248,817)	(562,671)
Add:			
Tax effect of:			
- non-deductible impairment losses and depreciation and amortisation		615,189	103,501
- other non-allowable items		216,174	90,909
- deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(g) occur		417,454	368,261
Income tax attributable to entity		-	-
(c) Unrecognised deferred tax assets			
Tax losses		22,530,286	21,054,605
Potential tax losses		6,759,086	6,316,382
Temporary differences			
Accruals and provisions		318,880	234,713
Potential tax benefit		95,664	70,414
Total deferred tax assets not brought to account		6,854,750	6,386,795
(d) Unrecognised tax losses of foreign subsidiaries			
IETC Environmental Protection Technology (Kunming) Ltd		(840,939)	(831,884)
Phoslock Water Solutions (UK) Co Ltd		(315,546)	(327,144)
Phoslock Europe GmbH		(484,959)	(306,783)

Notes to the financial statements

for the year ended 30 June 2011

Note 5 Key Management Personnel Compensation

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

(b)

Key Management Person	Position
Mr Laurence Freedman	Chairman – Non Executive (appointed 7 March 2011); Appointed to Board 20 October 2010
Dr David Garman	Chairman - Non Executive (retired 7 March 2011)
Mr Robert Schuitema	Managing Director and Company Secretary
The Hon. Pam Allan	Director - Non Executive
Mr Eddie Edmunds	General Manager - North America
Mr Nigel Traill	General Manager – Europe, South & Central America, Africa and The Middle East
Dr Sarah Groves	General Manager - Technical
Mr Andrew Winks	General Manager - Operations

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

	Consolidated Group	
	2011	2010
	\$	\$
Short term employee benefits	939,689	925,809
Post employment benefits	98,841	86,737
Equity compensation benefits	19,271	4,767
Total compensation	-	-
	1,057,801	1,017,313

(c) Options and Rights Holdings

Number of Options Held by Key Management Personnel

	Balance 1.07.2009	Options Acquired*	Options Exercised	Net Charge Other*	Balance 30.06.2011	Total Vested 30.06.2011	Total Exercisable 30.06.2011	Total Unexercisable 30.06.2011
	No.	No.	No.	No.	No.	No.	No.	No.
Dr David Garman (1)	227,272	-	-	(227,272)	-	-	-	-
Mr Laurence Freedman (2)	-	-	-	-	-	-	-	-
Mr Robert Schuitema	2,454,545	-	-	(2,454,545)	-	-	-	-
The Hon. Pam Allan	400,000	-	-	(400,000)	-	-	-	-
Mr Eddie Edmunds	90,909	-	-	(90,909)	-	-	-	-
Mr Nigel Traill	90,909	-	-	(90,909)	-	-	-	-
Dr Sarah Groves	90,909	-	-	(90,909)	-	-	-	-
Mr Andrew Winks	-	-	-	-	-	-	-	-
Total	3,354,544	-	-	(3,354,544)	-	-	-	-

1) Resigned 7 March 2011

2) Appointed 20 October 2010

*The Net Change Other column above includes those options that have lapsed.

(d) Shareholdings

Number of Shares held by Key Management Personnel

	Balance 1.07.2010	Received as Compensation	Options Exercised	Net Charge Other*	Balance 30.06.2011
Key Management Personnel					
Dr David Garman (1)	1,027,273	-	-	(1,027,273)	-
Mr Laurence Freedman (2)	-	-	-	36,557,906	36,557,906
Mr Robert Schuitema	4,571,787	-	-	1,500,000	6,071,787
The Hon. Pam Allan	150,000	-	-	-	150,000
Mr Eddie Edmunds	90,909	-	-	-	90,909
Mr Nigel Traill	2,955,074	-	-	400,000	3,355,074
Dr Sarah Groves	190,909	-	-	-	190,909
Mr Andrew Winks	100,000	-	-	-	100,000
Total	9,085,952	-	-	37,430,633	46,516,585

1) Resigned 7 March 2011

2) Appointed 20 October 2010

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

Directors and senior executives who own shares and joined/resigned from the company during the year are shown in Net change other.

Note 6 Auditors Remuneration

Consolidated Group		
	2011	2010
	\$	\$
Remuneration of the auditor of the parent entity for:		
- auditing or reviewing the financial report	69,375	65,000
Remuneration of other auditors of subsidiaries for:		
- auditing or reviewing the financial report of subsidiaries	7,000	7,000

Notes to the financial statements

for the year ended 30 June 2011

Note 7 Earnings per Share

Consolidated Group		
	2011	2010
	\$	\$
(a) Reconciliation of earnings to profit or loss		
Profit / (Loss)	(4,162,723)	(1,875,569)
Profit / (Loss) attributable to minority equity interest	83,484	98,084
Earnings used to calculate basic EPS	(4,079,239)	(1,777,485)
Earnings used in the calculation of dilutive EPS	(4,079,239)	(1,777,485)

(b) Reconciliation of earnings to loss from continuing operations		
Loss from continuing operations	(4,162,723)	(1,875,569)
Loss attributable to minority equity interest in respect of continuing operations	83,484	98,084
Earnings used to calculate basic EPS from continuing operations	(4,079,239)	(1,777,485)
Earnings used in the calculation of dilutive EPS from continuing operations	(4,079,239)	(1,777,485)

	No.	No.
(c) Weighted average number of ordinary shares outstanding during the year used in calculating		
Weighted average number of ordinary shares outstanding	207,267,019	183,629,848
Weighted average number of options outstanding	-	8,583,557
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	207,267,019	192,213,405

(d) Classification of securities

Options with low probability of conversion at year-end are not included in basic and dilutive EPS as the exercise of the options is unlikely.

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

Note 8 Cash and Cash Equivalents

		Consolidated Group	
	Note	2011	2010
		\$	\$
Cash at bank and in hand		494,558	262,883
Short-term bank deposits		15,000	200,000
		509,588	462,883
The effective interest rate on short-term bank deposits was 5.00% (2010: 5.0%); these deposits have an average maturity of 120 days.			
Reconciliation of cash			
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:			
Cash and cash equivalents		509,588	462,883
		509,588	462,883

Note 9 Trade and Other Receivables

	Note	2011	2010
		\$	\$
CURRENT			
Trade receivables		961,262	632,786
Provision for impairment of receivables	9(a)	(51,133)	-
		910,129	632,786
Other receivables		-	339,932
		910,129	972,718
NON-CURRENT			
Trade and other receivables		192,517	-
		192,517	-

(a) Provision For Impairment of Receivables

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

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

	Opening Balance 1.07.2010	Charge for the Year	Amounts Written Back	Closing Balance 30.06.2011
	\$	\$	\$	\$
Current trade receivables	-	51,133	-	51,133

Notes to the financial statements for the year ended 30 June 2011

Note 10 Inventories

		Consolidated Group	
		2011	2010
		\$	\$
CURRENT			
At cost			
Raw materials and stores		44,380	69,674
Finished goods		751,734	1,068,628
		796,114	1,138,302

Note 11 Parent Entity Information

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

(a) Parent Entity Financial Information

	2011	2010
	\$	\$
Current assets	416	4,654
Non-current assets	1,770,124	4,231,366
Total assets	1,770,540	4,236,020
Current liabilities	-	-
Total liabilities	-	-
Net assets	1,770,540	4,236,020
Issued Capital	30,589,302	29,282,930
Share based payment reserve	-	1,006,753
Accumulated losses	(28,818,762)	(26,053,663)
Total Equity	1,770,540	4,236,020
Profit/(Loss) after income tax	(5,407,980)	(1,808,302)*
Other comprehensive income	-	-
Total comprehensive income	(5,407,980)**	(1,808,302)*
* Includes write down of receivables of wholly owned subsidiaries - \$1,718,038		
** Includes write down of receivables and investments of wholly owned subsidiaries - \$5,782,621		

(b) Controlled Entities of the Parent Entity

	Country of Incorporation	Percentage Owned (%)*	
		2011	2010
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
Purezza Marketing Inc **	USA	-	100
IETC Environmental Protection Technology (Kunming) Ltd	China	71	71
Phoslock Water Solutions UK Co Ltd	United Kingdom	100	100
Phoslock Europe GmbH	Switzerland	60	60
*Percentage of voting power is in proportion to ownership			
**Deconsolidated as subsidiaries have been wound up			

Note 12 Plant and Equipment

	2011	2010
	\$	\$
Plant and Equipment		
At cost	944,902	942,302
Accumulated depreciation	(779,675)	(620,217)
	165,227	322,085

The cost and accumulated depreciation balances for Property, Plant and Equipment are restated to take into account assets fully depreciated in the prior year. This has restatement had the same impact on the cost and accumulated depreciation and had no impact on the overall carrying amount of Property, Plant and Equipment.

(a) Movements in Carrying Amounts

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

	Plant and Equipment	Total
	\$	\$
Balance at 1 July 2009	485,176	485,176
Additions	15,015	15,015
Disposals	(122)	(122)
Depreciation expense	(162,363)	(162,363)
Exchange differences	(15,621)	(15,621)
Balance at 30 June 2010	322,085	322,085
Additions	4,551	4,551
Disposals	(18,090)	(18,090)
Depreciation expense	(109,600)	(109,600)
Exchange differences	(33,719)	(33,719)
Balance at 30 June 2011	165,227	165,227

* The motor vehicle has a book value of \$ 11,223 (2010: \$16,097) is subject to a finance lease referred to in Note 16

Notes to the financial statements

for the year ended 30 June 2011

Note 13 Intangible Assets

	Consolidated Group	
	2011	2010
	\$	\$
Trademarks and licences		
Cost	4,159,660	4,159,660
Accumulated amortisation and impairment	(4,148,358)	(1,768,920)
Exchange differences	(11,302)	(4,872)
Net carrying value	-	2,385,868
Development costs		
Cost	323,740	323,740
Accumulated amortisation and impairment	(323,740)	(266,566)
Net carrying value	-	57,174
Total intangibles	-	2,443,042

	Trademarks & Licences	Development Costs	Total
	\$	\$	\$
Balance as at 30 June 2009	2,713,944	64,798	2,778,742
Additions	6,472	-	6,472
Amortisation charge	(329,676)	(7,624)	(337,380)
Exchange differences	(4,872)	-	(4,872)
Balance as at 30 June 2010	2,385,868	57,174	2,443,042
Additions	-	-	-
Amortisation charge	(331,562)	(7,624)	(339,186)
Exchange differences	(11,302)	-	(11,302)
Impairment provision as at June 2011	(2,043,004)	(49,550)	(2,092,554)
Closing value at 30 June 2011	-	-	-

Intangible assets have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense per the statement of comprehensive income.

Impairment of Trademarks & Licences and Development Costs as at 30 June 2011

The directors have resolved to impair the carrying value of company's Intellectual Property (\$2,092,554) based on value

in use calculation below. The company's Intellectual Property is core to the Phoslock business. The directors believe that the carrying value of the Intellectual Property does not affect the Phoslock business and that nothing has changed to the length of protection afforded to the company via its patents and trademarks. In future years the company will benefit through lower amortisation charges of approx \$350,000 per annum (until 2017-18).

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 6 ½ year period using estimated growth rates.

Management has based the value-in-use calculations on expected volume forecasts for the remaining life of the Phoslock license. Existing cost and pricing structures have been applied to the volume forecasts. Volumes have been

determined with reference to forecasts for each market and geographic segment of the business with due regard for existing and planned production capacity. Discount rates are pre-tax and are adjusted to incorporate risks associated with a particular intangible asset.

Value in use calculation take into account an element of uncertainty associated with the conversion of the company's sales pipeline in future years.

Note 14 Other Assets

	2011	2010
	\$	\$
CURRENT	63,333	68,425
Prepayments	63,333	68,425

Note 15 Trade and Other Payables

	2011	2010
	\$	\$
CURRENT		
Unsecured liabilities		
Trade payables	256,974	333,664
Sundry payables and accrued expenses	82,883	31,000
	339,857	364,664

Note 16 Financial Liabilities

CURRENT	Note		
Secured liabilities			
Lease liability	20	9,510	17,593
		9,510	17,593
NON-CURRENT			
Unsecured liabilities			
Joint venture partner loan/supplier advances		271,746	130,977
		271,746	130,977
Secured liabilities			
Lease liability	20	2,377	-
		274,123	130,977

Notes to the financial statements

for the year ended 30 June 2011

Note 17 Provisions

Consolidated Group		
	2011	2010
	\$	\$
CURRENT		
Employee Entitlements		
Opening balance at 1 July 2010	118,255	78,723
Additional provisions	76,364	73,364
Amounts used	(50,301)	(33,832)
Balance at 30 June 2011	144,318	118,255
NON CURRENT		
Employee Entitlements		
Opening balance at 1 July 2010	72,458	50,000
Additional provisions	19,271	22,458
Amounts used	-	-
Balance at 30 June 2011	91,729	72,458
Analysis of Total Provisions		
Current	144,318	118,255
Non-current	91,729	72,458
	236,047	190,713

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 18 Issued Capital

Consolidated Group					
		2011	2010		
186,530,580 (2009: 167,805,462) fully paid ordinary shares		\$	\$		
		30,589,302	29,282,930		
		30,589,302	29,282,930		
(a) Ordinary Shares		2011	2011	2010	2010
		No.	\$	No.	\$
At the beginning of reporting year		186,530,580	29,282,930	167,805,462	26,854,351
Shares issued during year					
	10-Aug-09	-	-	5,593,884	615,326
	10-Aug-09	-	-	357,041	53,558
	18-Aug-09	-	-	5,555,556	1,000,000
	25-Aug-09	-	-	4,988,637	548,750
	22-Oct-09	-	-	2,000,000	220,000
	30-Nov-09	-	-	80,000	12,000
	30-Nov-09	-	-	150,000	16,500
	6-Sep-10	22,000,000	1,100,000	-	-
	24-Sep-10	1,500,000	75,000	-	-
	30-Nov-10	2,900,000	145,000	-	-
Transaction Costs		-	(13,628)	-	(37,555)
At reporting date		212,930,580	30,589,302	186,530,580	29,282,930

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.

Notes to the financial statements

for the year ended 30 June 2011

Note 18 Issued Capital continued

(b) Options

- (i) For information relating to Phoslock Water Solutions Limited employee options, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end. Refer to Note 23: Share-based Payments.
- (iii) For information relating to share options issued to key management personnel during the financial year. Refer to Note 23: 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 manages the group's capital by assessing the groups financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels and share issues.

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 20%. The gearing ratio's for the year ended 30 June 2011 and 30 June 2010 are as follows:

	Note	2010	2009
		\$	\$
Total borrowings	15, 16	623,490	513,234
Less cash and cash equivalents	8	(509,588)	(462,883)
Net debt		113,902	50,351
Total equity		1,777,371	4,703,508
Total assets		2,637,277	5,407,455
Gearing ratio		6%	1%

Note 19 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.

The option reserve was transferred to retained earnings as at 30 June 2011. The basis of the transfer was as a result of the majority of options had lapsed as at that date.

Note 20 Capital and Leasing Commitments

	Note	2011	2010
		\$	\$
a) Finance Lease Commitments			
Payable - minimum lease payments			
- not later than 12 months		9,510	17,848
- between 12 months and 5 years		2,377	-
- greater than 5 years		-	-
Minimum lease payments		11,887	17,848
Less future finance charges		-	(256)
Present value of minimum lease payments	16	11,887	17,592

The finance lease, on a motor vehicle, commenced in 2010, and has a payment period of 26 months with the lease fully repaid in September 2012.

	Note	2011	2010
		\$	\$
(b) Operating Lease Commitments			
Non-cancellable operating leases contracted for but not capitalised in the			
Payable - minimum lease payments			
- not later than 12 months		152,254	63,514
- between 12 months and 5 years		204,356	104,654
- greater than 5 years		-	13,082
		356,610	181,250

Lease 1 is a non-cancelable lease expiring 30 September, 2013. 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.

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.

Lease 3 is a cancelable lease for office equipment cancelable with one months notice, however a termination payment will be payable. Rent is payable monthly in advance.

Notes to the financial statements

for the year ended 30 June 2011

Note 21 Segment Reporting

Segment Information

Identification of reportable segments

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

The group is managed primarily on the basis of geographical areas – Australia/NZ, Europe/UK, North America and Asia. The Group's operations inherently have similar profiles and performance assessment criteria.

Types of products and services by segment

The sale of Phoslock granules and application services and lake restoration consulting services is the main business of the Group. These products and services are provided on a geographical basis with offices and representation in each of the company's four key geographical areas - Australia/NZ, Europe/UK, North America and Asia.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Inter-segment transactions

An internally determined transfer price is set for all inter-entity sales. This price is based on what would be realised in the event the sale was made to an external party at arm's-length. All such transactions are eliminated on consolidation for the Groups financial statements.

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

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

Segment assets

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

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

Segment liabilities

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

Unallocated items

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

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

(i) Segment performance

	Australia/ NZ	Europe/UK	North America	Asia	Total	Eliminations	Total
	\$	\$	\$	\$	\$	\$	\$
Twelve months ended 30 June 2011							
Revenue							
External sales	475,809	979,140	293,960	405	1,749,314	-	1,749,314
Inter-segment sales	-	31,299	-	607,652	638,951	(638,951)	-
Other revenue	321,357	31,385	-	-	352,742	-	352,742
Total segment revenue	797,166	1,041,824	293,960	608,057	2,741,007	(638,951)	2,102,056
Reconciliation of segment revenue to group revenue							20,359
Unallocated interest income							2,122,415
Total group revenue							
Segment loss before tax	(780,280)	(85,730)	50,000	201,326	(614,684)	-	(614,684)
Reconciliation of segment result to group net profit/(loss) before tax							
Amounts not included in segment result but reviewed by the Board:							
– Impairment of intangibles and investments	(2,118,286)	-	-	(48,877)	(2,167,163)	-	(2,167,163)
– Depreciation and amortisation	(364,701)	(675)	-	(83,343)	(448,719)	-	(448,719)
Unallocated items:							
– Corporate charges							(867,411)
– Finance costs							(64,746)
Loss before income tax from continuing operations							(4,162,723)
Twelve months ended 30 June 2010 Revenue							
External sales	439,454	753,362	347,061	46,996	1,586,873	-	1,586,873
Inter-segment sales	24,823	-	-	526,999	551,822	(551,822)	-
Other revenue	344,345	69		-	344,414	-	344,414
Total segment revenue	808,622	753,431	347,061	573,995	2,483,109	(551,822)	1,931,287
Reconciliation of segment revenue to group revenue							
Unallocated interest income							11,539
Total group revenue							1,942,826

Notes to the financial statements

for the year ended 30 June 2011

Note 21 Segment Reporting continued

	Australia/ NZ	Europe/UK	North America	Asia	Total	Eliminations	Total
	\$	\$	\$	\$	\$	\$	\$
Segment loss before tax	(555,966)	(126,127)	(50,000)	24,806	(708,287)	-	(708,287)
Reconciliation of segment result to group net profit/(loss) before tax							
Amounts not included in segment result but reviewed by the Board:							
– Depreciation and amortisation	(396,154)	(1,975)	-	(101,614)	(499,743)	-	(499,743)
Unallocated items:							
– Corporate charges							(583,941)
– Finance costs							(83,598)
Loss before income tax from continuing operations							(1,875,569)
30 June 2011							
Segment assets	2,517,834	105,523	-	356,632	2,979,989	(343,081)	2,636,908
Unallocated assets- intangibles							-
Total group assets							2,636,908
30 June 2010							
Segment assets	3,124,108	80,247	-	527,212	3,731,567	(767,154)	2,964,413
Unallocated assets- intangibles							2,443,042
Total group assets							5,407,455

(iii) Segment liabilities

30 June 2011							
Segment liabilities	575,174	893,934	-	331,891	1,800,999	(941,462)	859,537
Unallocated liabilities							-
Total group liabilities							859,537
30 June 2010							
Segment liabilities	378,840	690,016	-	502,785	1,571,641	(867,694)	703,947
Unallocated liabilities							
Total group liabilities							703,947

(iv) Major customers

The Group has a number of customers to which it provides both products and services. The Group's largest external customer accounts for 51% of external revenue (2010: 42%).

Note 22 Cash Flow Information

	2011	2010
(a) Reconciliation of Cash Flow from Operations with Profit after Income Tax	\$	\$
Loss after income tax	(4,162,723)	(1,875,569)
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit		
Amortisation	339,186	337,380
Depreciation	109,600	162,363
Net exchange differences	(14,627)	(15,305)
Impairment of intangibles/investments	2,167,163	-
Impairment of receivable	51,133	-
Net (gain)/loss on disposal of plant & equipment	(6,909)	(1,443)
Share issues expensed	-	70,000
Interest on converting notes	-	21,830
Change in assets/liabilities:		
(Increase)/decrease in trade and term receivables	(53,561)	(94,490)
(Increase)/decrease in prepayments	5,092	(6,429)
(Increase)/decrease in inventories	342,189	(76,816)
Increase/(decrease) in trade payables and accruals	(99,416)	23,555
Increase/(decrease) in provisions	45,334	61,990
Cash flow used in operating activities	(1,277,539)	(1,392,934)

Notes to the financial statements for the year ended 30 June 2011

Note 23 Share-based Payments to executives and directors

No share-based payments were made to executives or directors during the year (2010: \$0).

Note 24 Options

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

	2011		2010	
		Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
		\$		\$
Outstanding at the beginning of the year	21,080,434	0.20	21,290,637	0.32
Granted	-	0.11	13,032,521	0.11
Forfeited	-	0.50	(1,350,000)	0.50
Exercised	-	0.11	(681,817)	0.11
Expired	(20,780,434)	0.25	(11,210,907)	0.25
Outstanding at year-end	300,000	0.15	21,080,434	0.20
Exercisable at year-end	300,000	0.15	21,080,434	0.20

No options were issued during the year ended 30 June 2011.

The options outstanding at 30 June 2011 had an exercise price of \$0.15 and a weighted average remaining contractual life of 0.9 years.



Note 25 Events After the Balance Sheet Date

No material events occurred after the balance date.

Note 26 Related Party Transactions

	Consolidated Group	
	2011	2010
	\$	\$
Transactions between related parties are on normal commercial terms and conditions no more favorable than those available to other parties unless otherwise stated.		
Transactions with related parties:		
(a) Relatives of Specified Executives		
Margaret Schuitema – part time employment	60,000	60,000
Yolanda Winks – part time employment	22,000	18,333
Paige Edmunds – part time employment	-	9,000
Link Traders (Aust) Pty Ltd – financial services	64,745	20,579
Radar Group Pty Ltd – investor relations services	27,000	-
Robert Schuitema – loan from Phoslock Water Solutions Ltd	75,000	-
Dr David Garman – loan from Phoslock Water Solutions Ltd	50,000	-
Nigel Traill – loans from Phoslock Water Solutions Ltd	2,500	-
	301,245	107,912



Notes to the financial statements

for the year ended 30 June 2011

Note 27 Going Concern

The consolidated entity has incurred a significant loss after income tax of \$4,162,723 (2010: \$1,875,569), representing a loss from operations amounting to \$1,995,560 (2010: (\$1,875,569)) for the year ended 30 June 2011 in respect of the principal activities relating to the commercialisation of Phoslock and impairment losses of \$2,167,163 (2010: \$nil). The consolidated entity has accumulated losses of \$28,785,348 (2010: \$25,712,862) as at 30 June 2011.

The current year sales from Phoslock amounted to \$1.75 million, which were significantly less than management's forecast of between \$3 -5 million. The reduced sales in the current year have had an impact on the company's cashflow and operating performance.

The above matters create a material uncertainty that may cast significant doubt as to the ability of the company to continue as a going concern and, therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The total liabilities of the company as at 30 June 2011 totalled \$859,537 (2010: \$703,947) made up of trade creditors (\$256,974), motor vehicle lease (\$11,887), employee entitlements accrued (\$236,047), loan by joint venture partner to Phoslock Europe (\$271,746) and accrued expenses (\$82,883). The company had no bank debt or external borrowings as at 30 June 2011.

The directors have prepared the financial report of the consolidated entity on the going concern basis, which assumes that the company will be able to discharge its liabilities and realise its assets in the ordinary course of business, on the following basis:

- The Company has prepared detailed cash flow forecasts and assumptions for the period ending 12 months after the date of this report, and the directors consider that the cash flow forecasts are reasonable in the circumstances to support the Company's continued going concern.

The budget for 2012 approved by the directors, which underpins the abovementioned cash flow forecasts, is dependent on sales revenue of \$4 million, at the same gross profit margin as the previous year, and cash operating costs of \$2.4 million (net of government grants).

This level of revenue would generate slightly negative cash flows from operations and earnings before interest, income tax, depreciation and amortisation and an estimated consolidated net loss of \$600,000.

The company has trade receivables of \$910,129 as at 30 June, 2011 on normal commercial terms.

Achieving the forecast budget, together with the existing working capital and collection of trade receivables at 30 June 2011, will ensure the company has sufficient funds from existing cash and assets, and generated by operations in the next 12 months to meet its liabilities. Any reduction in sales will require the board to consider capital funding.

The company has forecast operating costs of \$230,000 per month. The company has the ability to contain these costs within the limits set.

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

- The company is currently working on 34 separate projects (each greater than \$100,000) in its key markets (3 in Australia, 18 in Europe/UK, 1 in Asia, 10 in North America and 2 in central/south America) with sales decisions due over the next 12 months. In addition, the company is working on 3 projects with application sizes in the 1,000-5,000 ton range.
- The Company may undertake an equity raising during 2012 however no decision has been made regarding the amount, the timing, structure of any offering or whether it would be targeted towards existing equity holders or new equity holders (Australian or international), including strategic partners. The directors consider that any capital raising activities which are required to fund operating cash flow shortages will be successful based on the company's prior capital raising initiatives.

Note 28 Financial Risk Management

(a) Financial Risk Management Policies

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

(i) Financial Risk Exposures and Management

The main risks the group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk.

Interest rate risk

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

Foreign currency risk

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

Liquidity risk

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

Credit risk

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

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

(b) Financial Instruments

(i) Financial Instrument Composition and Maturity Analysis

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

Notes to the financial statements

for the year ended 30 June 2011

Note 28 Financial Risk Management continued

Fixed Interest Rate Maturing								
	Weighted Average Effective Interest Rate		Floating Interest Rate		Within 1 Year		1 to 5 years	
	%		\$		\$		\$	
	2011	2010	2011	2010	2011	2010	2011	2010
Financial Assets:								
Cash and cash equivalents	4.0	4.0	450,873	403,524	58,685	59,359	-	-
Trade and other receivables			-	-	-	-	-	-
Total Financial Assets			450,873	403,524	58,685	59,359	-	-
			Fixed Interest Rate Over 5 Years		Non-interest Bearing		Total	
			\$		\$		\$	
			2011	2010	2011	2010	2011	2010
Financial Assets:								
Cash and cash equivalents			-	-	-	-	509,558	462,883
Trade and other receivables			-	-	1,153,779	972,718	1,153,779	972,718
Total Financial Assets					1,153,779	972,718	1,663,337	1,435,598
Fixed Interest Rate Maturing								
	Weighted Average Effective Interest Rate		Floating Interest Rate		Within 1 Year		1 to 5 years	
	%		\$		\$		\$	
	2011	2010	2011	2010	2011	2010	2011	2010
Financial Liabilities:								
Converting Notes*								
Trade and sundry payables			-	-	-	-	-	-
Lease liabilities	9.5	9.5	-	-	9,510	17,593	2,377	-
Shareholder's loan			-	-	-	-	-	-
Total Financial Liabilities			-	-	9,510	17,593	2,377	-
			Fixed Interest Rate Over 5 Years		Non-interest Bearing		Total	
			\$		\$		\$	
			2011	2010	2011	2010	2011	2010
Financial Liabilities:								
Trade and sundry payables			-	-	339,857	364,664	339,857	364,664
Lease liabilities			-	-	-	-	11,887	17,593
Shareholder's loan			-	-	271,746	130,977	271,746	130,977
Total Financial Liabilities			-	-	611,603	495,641	623,490	513,234

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

	2011	2010
	\$	\$
Less than 6 months	339,507	364,664
6 months to 1 year	-	-
1-5 years	-	-
Over 5 years	-	-
	339,507	364,664

Financial liabilities are expected to be paid as follows:

	2011	2010
	\$	\$
Less than 6 months	4,755	17,850
6 months to 1 year	4,755	-
1-5 years	2,377	-
Over 5 years	271,746	130,977
	283,633	148,827

(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 2011, the effect on profit and equity as a result of changes in the interest rate on Cash and cash equivalents, with all other variables remaining constant would be as follows:

	Consolidated Group	
	2011	2010
	\$	\$
Change in profit		
- Increase in interest rate by 1 %	5,000	4,600
- Decrease in interest rate by 1%	(5,000)	(4,600)
Change in equity	-	-
- Increase in interest rate by 1 %	5,000	4,600
- Decrease in interest rate by 1%	(5,000)	(4,600)

Foreign Currency Risk and Sensitivity Analysis

Notes to the financial statements

for the year ended 30 June 2011

Note 28 Financial Risk Management continued

As at 30 June 2011, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the US Dollar on sales of US\$1,000,000 with all other variables remaining constant is as follows:

	Consolidated Group	
	2011	2010
	\$	\$
Change in profit		
- Improvement in AUD to USD by 10%	(85,000)	(107,000)
- Decline in AUD to USD by 10%	103,000	130,000
Change in equity		
- Improvement in AUD to USD by 10%	(85,000)	(107,000)
- Decline in AUD to USD by 10%	103,000	130,000

As at 30 June 2011, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the Euro on sales of E1,000,000 with all other variables remaining constant is as follows:

	Consolidated Group	
	2011	2010
	\$	\$
Change in profit		
- Improvement in AUD to Euro by 10%	(123,000)	(130,000)
- Decline in AUD to Euro by 10%	150,000	159,000
Change in equity		
- Improvement in AUD to Euro by 10%	(123,000)	(130,000)
- Decline in AUD to Euro by 10%	150,000	159,000

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

Note 29 Company Details

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

Phoslock Water Solutions Limited

Suite 302, Level 3, 110 Pacific Highway

St Leonards NSW 2065

Note 30 Contingent Liabilities

There were no contingent liabilities at 30 June 2011 (2010:Nil)



Director's Declaration



The directors of the Company declare that:

1. the financial statements and notes, as set out on pages 17 to 52, are in accordance with the Corporations Act 2001 and:

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

(b) give a true and fair view of the financial position as at 30 June 2011 and of the performance for the year ended on that date of the Company and consolidated group.

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

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

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

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

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

The declaration is made in accordance with a resolution of the Board of Directors dated 30 August, 2011.

Mr Robert Schuitema

Managing Director

Declared this 30th day of August 2011

Hon Pam Allan

Non-Executive Director - Chairman of Audit Committee

Declared this 30th day of August 2011

Worldwide Head Office

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www.phoslock.com.au

Independent Auditor's 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 which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors declaration of the consolidated entity comprising the company and its controlled entities.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with the Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those 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.

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

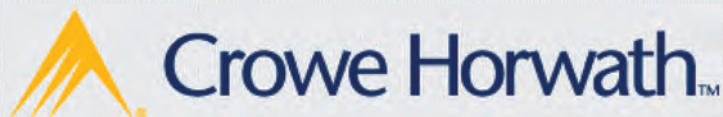


WHK Pty Ltd trading as WHK Horwath Brisbane is a member of Crowe Horwath International Association, a Swiss Verein.

Each member firm of Crowe Horwath is a separate and independent legal entity

Member Crowe Horwath International
WHK Horwath Brisbane
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www.whkhorwath.com.au
A WHK Group firm

Independent Auditor's Report



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 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.

Opinion

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

- i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its' performance for the year ended on that date; and
- ii. complying with Australian Accounting Standards to the extent described in Note 1 and complying with the Corporations Regulations 2001.

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

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Member Crowe Horwath International

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Independent Auditor's Report



Emphasis of matter

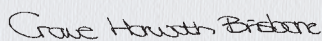
Without qualifying our opinion, we draw attention to Note 27, in the financial report, which indicates that the consolidated entity incurred a net loss of \$4,162,723 during the year ended 30 June 2011 and had accumulated losses totalling \$28,785,348 at 30 June 2011. These conditions, along with the other matters set forth in Note 27, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, whether it will be able to realise its assets and discharge its liabilities in the normal course of business.

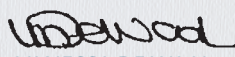
Report on the Remuneration Report

We have audited the Remuneration Report included on pages 10 to 14 of the directors' report for the year ended 30 June 2011. 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 2011, complies with section 300A of the Corporations Act 2001.


Crowe Horwath Brisbane


VANESSA DE WAAL
Partner

Signed at Brisbane, 31 August 2011

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Shareholder Information

The shareholder information set out below was applicable at 4 October, 2011

Distribution of Shareholders

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

Category of holding	Number of Holders	No of Shares Held
1-1000	52	19,872
1,001-5,000	180	490,980
5,001-10,000	240	1,336,773
10,001-100,000	533	24,850,511
100,001 shares and over	275	184,232,444
	1,280	212,930,580

b. There are 472 shareholders with less than a marketable parcel of shares

c. There are two substantial shareholder in the Company's register of Substantial Shareholders as at 4 October 2011 being:

Shareholder Names	No of Shares Held
Link Traders (Aust) Pty Ltd	37,535,355
Newvest Pty Ltd	10,990,224

Unquoted Securities

As at 4 October 2011 there were 150,000 options unquoted as follows:

Number of Options	Number of Holders
150,000	1

There is one significant (>20%) holders of unquoted securities

Name of Option Holder	Number of Options Held
European Consultant	150,000

Voting Rights

At a general meeting of shareholders:

a. On a show of hands, each person who is a member or sole proxy has one vote

b. On a poll, each shareholder is entitled to one vote for each fully paid share

Shareholder Information

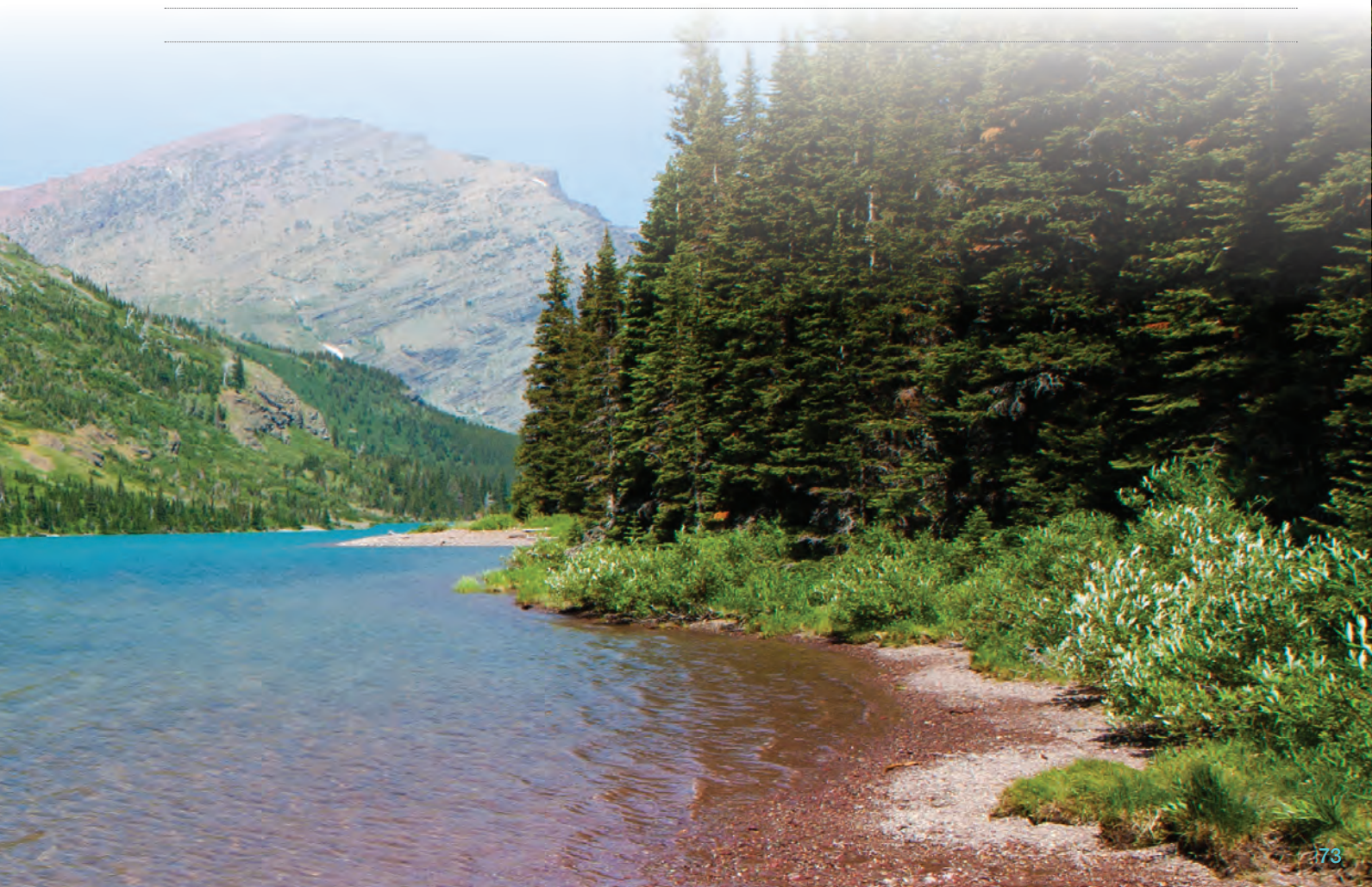
Twenty Largest Shareholders

As at 4 October, 2011 the twenty largest holders of ordinary shares are listed below.

Name	No of Shares Held	% of Shares Held
Link Traders (Aust) Pty Ltd	37,535,355	17.63%
Newvest Pty Ltd	10,990,224	5.16%
Ludgate Environmental Fund Ltd	9,250,000	4.34%
Evan Clucas & Leanne Weston	6,902,457	3.24%
Sail Ahead Pty Ltd	6,036,787	2.84%
David Colbran	5,800,000	2.72%
Paul & Lorraine Cazyer	3,891,002	1.83%
Nigel Traill	3,355,074	1.58%
Fraser Enterprises Pty Ltd	3,271,759	1.54%
Robert Bell & Giovanni Filippo	3,100,000	1.46%
Graham Gibson	2,800,000	1.31%
First Manhattan Securities Pty Ltd	2,627,668	1.23%
Quizete Pty Ltd	2,574,818	1.21%
Colowell Pty Ltd	2,191,759	1.03%
National Nominees Ltd	1,935,000	0.91%
Agio Capital Corporation Ltd	1,834,742	0.86%
Arthur & Erica Blaquiere	1,560,000	0.73%
Lesweek Pty Ltd	1,450,000	0.68%
Judith Lipscombe	1,373,500	0.65%
Chelsea Securities Limited	1,370,000	0.64%
Total	109,850,145	51.59%
Total Shares Issued	212,930,580	100.00%

Notes

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Phoslock Water Solutions Limited

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Sydney NSW 2065

Australia

