PHOSLOCK®

Phoslock Water Solutions Ltd.

2013 PHOSLOCK Annual Report

Innovative water technologies for clean & healthy water

www.phoslock.com.au

Directory

Directors

Laurence Freedman AM
Chairman

Robert Schuitema
Managing Director

The Hon. Pam Allan
Non Executive Director

Offices

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Management

Robert Schuitema
Cheif Financial Office & Company Secretary

Nigel Traill
General Manager - Europe, Africa & the Middle East

Andrew Winks
General Manager - Operations

Dr Sarah Groves
General Manager - Technical

Share Register

Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street
Sydney 2000
Ph: 02 8234 5000
Fax: 02 8234 5050
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ASX Listing Code: PHK

Auditors

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Brisbane QLD 4000

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Chairman's Report

The Phoslock business is now in its eighth year of development. The demand for this unique product has never been stronger. Poor water quality caused predominantly by harmful algal blooms is a major issue worldwide and the problem is predicted to intensify in coming years. Legislation introduced in the U.S. and Europe requires water managers to implement measures to reduce phosphorus levels in waterways under their control. 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 not only the evaluation of treatment options and strategies, but dialogue and consensus building between lake authorities, local and central government and the securing of funding for the project.

Phoslock currently has a pipeline of 43 projects, each greater than $100,000, totalling more than 20,000 tonnes, with the sales process well underway in most cases. The pipeline includes five projects in Australia, 17 in Europe/UK, 17 in North America, three in Asia and one in South America. In addition, we are working on four very large projects with application sizes between 1,000 to 20,000 tonnes.

This past year we were involved in a record number of tenders. Phoslock currently has more than 120 water body case study applications to demonstrate our proven track record. Tender processes are typically through government-type agencies, are transparent and well run processes which include a full technological evaluation and long-term benefits to the water body, as opposed to a comparison based solely on the pricing of products. Regrettably, in the post-GFC environment, many such authorities continue to have funding difficulties. However, a well-run tender process with full scientific evaluation should ultimately come down to proven performance, regardless of price.

The Company's recently achieved North American Drinking Water certification is a most important status for us in both the drinking

water and non-drinking water sectors. The Water Quality Association (WQA) is an accredited certification agency for a number of water treatment products across the United States and Canada.

The certification awarded to Phoslock provides assurances to customers that treating their water bodies with Phoslock is safe for human consumption, subject to maximum dose rates. WQA's Gold Seal is now applied to all Phoslock labels to show that it is a WQA Tested and Certified Product.

Having set as my top priority the refocussing of the Company from its earlier research and development orientation to a strictly commercial one since joining the Board, the challenge for the Company now is to accelerate the level of sales conversion. Success with completed projects is the ultimate marketing tool and I am confident that, as sales increase, the period from tender to sale will decrease.

I would like to convey my gratitude to Rob Schuitema who continues to be a most diligent and energetic Managing Director and to Pam Allan for her most valuable insights and knowledge. It is a pleasure to have a harmonious board of directors, all with a common aim.

In addition, every member of the executive team deserves the strongest appreciation for their most efficient and effective management of the business.

I would like to take this opportunity to thank all shareholders for your loyalty and faith in the Company.

I look forward to announcing solid commercial progress in the year ahead.

Yours sincerely,

Laurence Freedman AM
Chairman

"Success with completed projects is the ultimate marketing tool..."

Managing Director's Report

The Company's performance for FY2012/13 is summarised as follows:

Financial Performance: Revenue was 8% higher for the year. Sales momentum continues to build, however the Company is yet to achieve a level of sales which reflects the potential of the product. Earnings before Interest, Tax, Depreciation & Amortisation and Impairments (EBITDA) was 8% lower. Operating expenses were in line with the previous financial year.

Sales & Sales Pipeline: The Company and its licensees completed 30 applications during the year. The company has a sales pipeline of 43 separate projects (each greater than $100,000) in our key markets - 5 projects in Australia, 17 in Europe/UK, 17 in North America, 3 in Asia and 1 in central and southern America. The Company is also working on 4 very large projects with application sizes between 1,000 to 20,000 plus ton range.

Sales Coverage: Sales coverage remains strong in Australasia, Europe and UK, Canada and the United States via its licensee, SePRO Corporation. The Company is pursuing a number of large one off applications in central & south America and selected Asian countries.

Manufacturing of Phoslock: The manufacturing joint venture in China is in its 10th year. Under the JV Agreement, the term of the JV is a fixed 10 year term unless extended by both parties. By mutual agreement the JV will not be extended beyond December, 2013. The Company has put in place an alternative manufacturing arrangement with a party PWS has dealt with for a number of years, in central China, which will be in production by November 2013.

Employees: Team 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. One product is in its second year of development. This technology would fit well with the company's current technology and offers PWS significant strategic benefits.

Financial Performance for FY 2012/13

The financial performance for FY 2012/13 saw Net Profit before Tax before Impairments of negative $2.06 million versus negative $1.82 million for FY2011/12. Revenues for FY 2012/13 were up 8% to $1.6 million. EBITDA was down 8% to negative $1.7 million. Operating expenses, year on year, were 0.1% lower with slightly higher occupancy and marketing costs offset by slightly lower administration costs.

The Company's focus is to convert its sales pipeline into sales and growing its revenues to a level where

APPLICATION TO CANADIAN LAKE, CANADA

the Company is cash flow positive then profitable.

International Certification

Phoslock's North American Drinking Water certification is an important status for both the drinking water and non-drinking water sectors. The Water Quality Association (WQA) is an accredited certification agency for a number of water treatment products in North America, including North American Drinking Water (NSF/ANSI Standard 60), the accreditation which Phoslock received. WQA is accredited by the American National Standards Association (ANSI) and the Standards Council of Canada (SCC). The WQA certification provides assurances and scientific approvals regarding safety and health for consumers.

The certification awarded to Phoslock provides assurances that treating water bodies with Phoslock is safe for human consumption, subject to maximum dose rates. WQA's Gold Seal will now be applied to Phoslock labels to show that the product is a WQA Tested and Certified Product.

Continued →

← **The Company's major sales regions are reviewed below:**

Europe & United Kingdom

The European and U.K. region accounted for 39% (2012: 29%) of the Company's total sales during the financial year. During the past twelve months, sales were recorded in Germany, the U.K, Finland, the Netherlands and Italy. Thirteen applications were completed, with the largest of these taking place in the United Kingdom.

The highlight of the year for Phoslock Europe was the treatment of two lakes in the United Kingdom for the UK Environmental Authority and the Natural Environment Research Council's Centre for Ecology and Hydrology aimed at assessing phosphorus capping techniques designed to reduce eutrophication in lakes. The project was awarded to Phoslock Europe in January 2013 following a rigorous tender process in which a range of other technologies were assessed.

United States & Canada

The North American region accounted for 53% (2012: 37%) of the Company's total sales during the financial year. This was the second year of sales in the United States market through our licensee, SePRO Corporation. SePRO focuses on developing, manufacturing and marketing value-added products for speciality applications in niche markets. SePRO has nationwide coverage through its authorised distributer network and preferred applicator group. Phoslock is a product in SePRO's water quality and technology group.

Sales by SePRO were strong for its second year as Phoslock licensee. SePRO continues to develop national awareness of Phoslock via trade shows, conferences, direct marketing and via its authorised applicator network. The continued national awareness campaign is seeing strong interest generated with target customers throughout the USA. Milestone applications were completed in Florida, California and New York State.

During the year the Company changed its sales coverage of Canada, with the Phoslock Europe team managing coverage of Canadian customers and marketing, and assisting SePRO Corporation with technical issues. The Company is also working on a number of projects with other lake authorities and lake home owner bodies in Ontario, Alberta and Quebec.

Australia

Australia accounted for 6% (2012: 12%) of the Company's total sales during the financial year. The 2013 sales numbers included two large one off projects. During the current financial year the Company completed 6 applications, including several which are now treated on an annual basis. The company is working on a several projects around Australia which include rivers, lakes 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 and Mexico. The projects are very large in size however the sales process in Asia is informal in process.

Production

The manufacturing joint venture in China is in its 10th year. Under the JV Agreement, the term of the JV is a fixed 10 year term unless extended by both parties. By mutual agreement the JV will not be extended beyond December, 2013. The Company has put in place an alternative manufacturing arrangement with a party PWS has dealt with for a number of years, in central China, which will be in production by November 2013.

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.

"The demand for this unique product has never been stronger."

WORK IN WINTER AT A UK LAKE

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 evaluated several new water treatment technologies during the year. One product is in its second year of development.

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.

Robert Schuitema

Managing Director

2nd October, 2013

Director's Report

Your directors present their report on the Company and its controlled entities (the consolidated entity) for the financial year ended 30th June, 2013.

Directors

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

- **Mr Laurence Freedman AM**
- **Mr Robert Schuitema**
- **The Hon. Pam Allan**

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 entity during the financial year was the commercialisation of Phoslock.

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

Operating Results

The consolidated loss of the consolidated entity after providing for income tax and non-controlling interests amounted to ($2,060,431) (2012:($1,820,058)). Revenue increased by 8% from $1,497,550 (2012) to $1,629,949 (2013). Earnings before Interest Tax & Depreciation for 2013 was ($1,757,884) versus ($1,624,009) (2012).

The breakdown of the 2013 net loss by first half and second half was:
6 months to 31 December 2012: ($992,872) 31 December 2011 ($725,123)
6 months to 30 June 2013: ($1,067,559) 30 June 2012 ($1,094,935)
The performance of the company for 2013 was similar to 2012. The company expended significant resources to work on a number of large long term projects, the benefits of which have not been realised.

Dividends Paid or Recommended
No dividends have been paid or declared for payment in relation to the financial year ended 30 June 2013 (2012:$Nil).

Review of Operations

Revenues recorded for the year of $1,629,949 represent a 8% increase over the prior year. The major sales areas were Europe, North America and Australia along with access to Australian Government Grants for both export development and ongoing research and development. The company continues to work on a number of large projects, which would deliver significant benefits for the shareholders.

Operating expenses (excluding depreciation and amortisation, finance, impairment of receivables) for the year decreased slightly to $2,585,042 (2012:$2,588,085). Slighly higher employee costs, marketing costs (Asia and Europe) and occupancy costs offset lower administration costs.
The loss for the year of the consolidated entity after providing for non-controlling interests amounted to $2,060,431 (2012 ($1,820,058)).
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 FY2013 were $1,313,343.
During FY2013 the Company focused on its key markets of Australia, Europe and United Kingdom and North America. Significant marketing efforts were made for large one off projects in Asia, Central & South America.

PWS SALES BY REGION

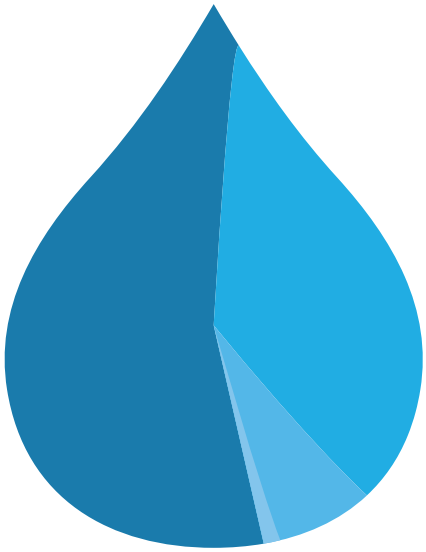
% Sales for FY2012-13

NORTH AMERICA **53%**

EUROPE **39%**

AUSTRALIA **6%**

OTHER **2%**



The number of applications completed during the year was the same as the previous year with 30 commercial applications completed (2012:30) but the average value of the projects was higher. Approximately 1/4th of the projects completed in 2013 were for repeat customers.

39% of sales came from the European region, where 43 lake projects have been completed since early 2007. The company has an excellent relationship with our European partner, Bentophos. The 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.

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 in 2011. Sales for 2013 included 10 projects, with milestone projects in Florida, California and New York state.

The company, and its licensees, are currently working on 43 separate projects (each greater than $100,000) in our key markets (5 in Australia,17 in Europe/UK, 3 in Asia, 17 in North America and 1 in central/ south America) with sales decisions on a large number of these projects due over the next 12 months. In addition, the company is working on 4 projects with application sizes in 1,000-20,000 plus ton range.

The key to PWS's growth and development is increasing sales by converting its extensive pipeline into sales.

Financial Position

The net assets of the consolidated entity decreased by $689,123 from 30 June 2012 to a net liability position of $736,889 on 30 June 2013.The net decrease is mainly as a result of the operating loss of ($2,060,389) and offset by an equity raising in February 2013 generating approx $1.2 million.

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) Large one off projects in Asia, Central & Southern America.

(iv) Transfer production of Phoslock to a new production facility in China. This is expected to lower production and distribution costs.

(v) Evaluation and development of other water treatment products via licensing arrangements or acquisition to add to PWS's product range. PWS has been working for more than 18 months with a company on a new water treatment product.

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PHOSLOCK APPLIED TO UK LAKE

Going concern

The consolidated entity has incurred a significant loss after income tax of $2,060,431 (2012 $1,820,058), for the year ended 30 June 2013 in respect of the principal activities relating to the commercialisation of Phoslock. The consolidated entity has accumulated losses of $32,686,216 (2012 : $30,684,826) as at 30 June 2013. The company has net liabilities of $736,889 (2012:($56,766)) and $1.3 million of Convertible Notes maturing in December 2013.

The current year sales from Phoslock amounted to $1,313,344 (2012: $1,048,246), which were significantly less than management's forecast of between $3 -5 million ($2,194,466). The reduced sales in the current year have had an impact on the company's cashflow and operating performance.

The total liabilities of the company as at 30 June 2013 totalled $2,197,330 (2012:$2,189,525) made up of trade creditors $311,405 (2012:$286,044,) employee entitlements accrual $308,523 (2012:$326,411, loan by joint venture partner to Phoslock Europe $277,402, and Convertible Notes of $1,300,000. At the date of this report the company had cash reserves of $409,760 (2012:$384,381).

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 is liabilities in the normal course of business.

The director's 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. The key underlying assumption of the directors in preparing the report ont he going concern basis are:

- The consolidated entity 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 detailed cash flows, which reflect the detailed assumptions below, indicate a forecast cash balance of $700,000 from the issuing of the financial report.
- The budget for the period August 2013 to September 2014 approved by the directors, which underpins the abovementioned cash flow forecasts, is dependent on sales revenue of $5.3 million, product purchases of $2.3 million, and cash operating costs of $2.3 million, at the same gross margin as the previous year, and operating cash costs of $1.9 million. Implicit in the sales forcast is one major contract for 1,000 tonnes for which cash flows forecasted from October 2013 to September 2014.

PINE LAKE - DAY ONE FULL STEAM AHEAD AT SUNRISE

- This level of revenue would generate slightly positive cash flows from operations and earnings before interest, income tax, depreciation and amortisation and an estimated consolidated net profit of $1 milion. The consolidated entity has trade receivables of $472,842 (2012:$656,904) as at 30 June, 2013 on normal commercial terms. The company has the ability to factor receivables as required to support the working capital needs of the consolidated entity.
- The consolidated entity's $1.3 million Convertible Notes mature on 31 December, 2013. At this stage the holder has made no decision to convert the Notes into PHK Shares or seek an extension or request repayment. Based on the forecast cashflow it is unlikely that the company will be in a position to repay the $1.3 million Convertible Notes without it being refinanced or an extension granted by the current holder of the Notes.

Achieving the forecast budget, together with conversion into PHK Shares or extension of the Convertible Notes and collection of trade receivables at 30 June 2013, 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 or an inability to renegotiate the unsecured loan facility will require the board to consider capital funding.

In the event that the company fail to meet its sales target of $5.3 million or renegotiate the unsecured loan facility, the consolidated entity will need to raise capital of at least $1.6 million in order to support its going concern assumption.

The company has forecast cash operating costs of $1.9 million. 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, and its licensees, are currently working on 43 separate projects (each greater than $100,000) in our key markets (5 in Australia,17 in Europe/UK,3 in Asia, 17 in North America and 1 in central/south America) with sales decisions on a large number of these projects due over the next 12 months. In addition, the company is working on 4 projects with application sizes in 1,000-20,000 plus ton range.

The Company may undertake an equity raising during 2014 however no decision has been made regarding the amount, the timing, structure of any offering or whether it would be targeted towards existing equity holders or new equity holders (Australian or international), including strategic partners. If sales of $4.2 million are not realised, the consolidated entity may need to raise capital in FY2013-14. 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.

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Significant Changes in State of Affairs

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

Environmental Issues

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

Phoslock was awarded North American Drinking Water certification (NSF/ANSI 60) in 2011 and has been renewed annually. Internationally, the Company commits to comply with all local regulatory authority requirements.

The directors are not aware of any breaches of environmental regulations by the consolidated entity in any of the regions in which the company operates.

Information on Directors

Mr Laurence Freedman AM	**Chairman (Non-executive)**
Experience	Board member since 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 KalNorth Gold Mines Ltd.
Interest in Shares & Options	40,693,273 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 KalNorth Gold Mines Ltd and previously Electo Optical Systems Ltd and Inca Copper & Gold Ltd
Interest in Shares & Options	7,806,662 Ordinary Shares in Phoslock Water Solutions Ltd 15,000,000 Options over Phoslock Water Solutions Ltd shares. Exercise of Options subject to minimum sales performance
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 July 2007. 18 years membership of the NSW parliament including 5 years as Minister for the Environment.
Interest in Shares & Options	300,000 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 (Audited)

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).

APPLICATION TO NEW YORK LAKE, UNITED STATES

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. 15 million performance options were issued to the Managing Director during 2013 (2012: $nil).

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 2013 was $110,006 (2012: $109,745). As at 30 June 2013, the board comprised two non- executive directors and one executive director. The three directors held 48,799,935 (2012: 45,830,239) ordinary fully paid shares in the company as at 30 June, 2013 which comprised 20.3% (2012: 21.5%) of the total issued shares of the company.

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Key Management Personnel Rumuneration

	Short-term Employment Benefits			Post Employment Benefits	Long-term Benefits	Share Based Payments	Total	Performance Related
	Salary, Fees & Commissions	Non Monetary	Other	Supperannuation Contribution	Long Service Leave	Shares & Options		
30 June 2013	$	$	$	$	$	$	$	%
Mr Robert Schuitema	198,000	7,500	5,590	20,553	4,725	26,368	262,736	10.0%
The Hon. Pam Allan	50,003	-		5,000	-	-	55,003	-
Mr Laurence Freedman	50,003	-		5,000	-	-	55,003	-
	298,006	7,500	5,590	30,553	4,725	26,368	372,742	10.0%
Specified Executives								
Mr Nigel Traill	157,063	4,600	-	16,165	6,583	2,251	186,662	1.2%
Mr Eddie Edmunds	139,234	51,200	-	14,965	-	-	205,399	
Mr Andrew Winks	105,000	7,500	-	10,500	1,687	2,251	126,938	1.8%
Dr Sarah Groves	90,105	7,500	-	9,234	1,563	450	108,852	0.4%
	491,402	70,800	-	50,864	9,833	4,952	627,851	3.4%
Total	**789,408**	**78,300**	**5,590**	**81,417**	**14,558**	**31,320**	**1,000,593**	**13.4%**

	Short-term Employment Benefits			Post Employment Benefits	Long-term Benefits	Share Based Payments	Total	Performance Related
	Salary, Fees & Commissions	Non Monetary	Other	Supperannuation Contribution	Long Service Leave	Shares & Options		
30 June 2012	$	$	$	$	$	$	$	
Mr Robert Schuitema	220,125	-	5,901	22,013	8,426	-	256,465	-
The Hon. Pam Allan	50,991	-	-	3,750	-	-	54,741	-
Mr Laurence Freedman	50,004	-	-	5,000	-	-	55,004	-
	321,120	-	5,901	30,763	8,426	-	366,210	-
Specified Executives								
Mr Nigel Traill	153,754	-	12,500	15,375	7,287	-	188,916	-
Mr Eddie Edmunds	203,748	-	-	20,375	5,484	-	229,607	-
Mr Andrew Winks	103,749	-	-	10,375	4,585	-	118,709	-
Dr Sarah Groves	93,751	-	-	9,375	303	-	103,429	-
	555,002	-	12,500	55,500	17,659	-	640,661	-
Total	**876,122**	-	**18,401**	**86,263**	**26,085**	-	**1,006,871**	-

Remuneration

Executive directors and executives were not paid performance based bonuses during the year. The managing director and certain specified executives received performance options during the year. The remuneration committee will consider future bonuses to encourage achievement of specific goals that have been given a high level of importance in relation to the future growth and profitability of the consolidated entity. The remuneration committee will review performance bonuses to gauge their effectiveness against achievement of the set goals, and adjust future years' incentives as they see fit, to ensure use of the most cost effective and efficient methods.

Shares & Options

Shares and Options Issued as Part of Remuneration for the Year Ended 30 June 2013

No shares or options were issued to directors during the year.

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 1.07.2012	Recieved as Compensation	Options Excerised	Net Charge Other*	Balance 30.06.2013
	No.	No.	No.	No.	No.
Key Management Personnel					
Mr Laurence Freedman	39,291,620	-	-	1,401,653	40,693,273
Mr Robert Schuitema	6,388,619	-	-	1,418,043	7,806,662
The Hon. Pam Allan	150,000	-	-	150,000	300,000
Mr Eddie Edmunds	1,090,909	-	-	-1,090,909	0
Mr Nigel Traill	3,355,074	-	-	200,000	3,555,074
Dr Sarah Groves	190,909	-	-	326,087	516,996
Mr Andrew Winks	100,000	-	-	326,087	426,087
Total	**50,567,131**	-	-	**2,730,961**	**53,298,092**

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

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

	Balance 1.07.2012	Options Acquired*	Options Excerised	Net Charge Other*	Balance 30.06.2013	Total Vested 30.06.2013	Total Exercisable 30.06.2013	Total Unexercisable 30.06.2013
	No.	No.	No.	No.	No.	No.	No.	No.
Mr Laurence Freedman	-	-	-	-	-	-	-	-
Mr Robert Schuitema	-	15,000,000	-	-	15,000,000	-	-	15,000,000
The Hon. Pam Allan	-	-	-	-	-	-	-	-
Mr Eddie Edmunds	-	-	-	-	-	-	-	-
Mr Nigel Traill	-	2,500,000	-	-	2,500,000	-	-	2,500,000
Dr Sarah Groves	-	500,000	-	-	500,000	-	-	500,000
Mr Andrew Winks	-	2,500,000	-	-	2,500,000	-	-	2,500,000
Total	-	**20,500,000**	-	-	**20,500,000**	-	-	**20,500,000**

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

Continued →

Shares & Options

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

	2013		2012	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
		$		$
Outstanding at the beginning of the year	150,000	0.15	300,000	0.15
Granted	21,100,000	0.10	-	
Forfeited	-	0.00	-	
Exercised	-	0.00	-	
Expired	(150,000)	0.15	(150,000)	0.15
Outstanding at year-end	**21,100,000**	**0.10**	**150,000**	**0.15**
Exercisable at year end	**21,100,000**	**0.10**	**150,000**	**0.15**

The 21,100,000 performance based options outstanding at 30 June 2013 had a weighted average exercise price of $0.10 and a weighted average remaining contractual life of 1.4 years. The average exercise price for the options outstanding at 30 June 2013 is $0.10.

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 $31,745 (2012:$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 compensation.

	Options granted as Remuneration	Total Remuneration represented by Options	Options issued	Options exercised	Options lapsed	Total
	$	%				
Mr Laurence Freedman	-	-	-	-	-	-
Mr Robert Schuitema	26,368	10.0%	15,000,000	-	-	15,000,000
The Hon. Pam Allan	-	-	-	-	-	-
Mr Eddie Edmunds	-	-	-	-	-	-
Mr Nigel Traill	2,251	1.2%	2,500,000	-	-	2,500,000
Dr Sarah Groves	450	0.4%	500,000	-	-	500,000
Mr Andrew Winks	2,251	1.8%	2,500,000	-	-	2,500,000

Value of options that lapsed as are a result of vesting conditions not being fulfilled was nil.

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 a range of one to three month resignation periods. The Company may terminate a contract of employment without cause by providing written notice or making payment in lieu of notice for a period equivalent to the resignation period. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time. Directors or Senior Executives have 20,500,000 options outstanding as at 30 June 2013 (2012:nil).

There were no termination payments during the year (2012: nil).

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
18-Feb-13	1-Jan-14	$0.10	5,000,000
18-Feb-13	1-Jan-15	$0.10	5,000,000
18-Feb-13	1-Jan-16	$0.10	5,000,000
22-Feb-13	31-Dec-13	$0.10	2,750,000
22-Feb-13	31-Dec-14	$0.12	2,750,000
18-Mar-13	31-Dec-13	$0.10	300,000
18-Mar-13	31-Dec-14	$0.12	300,000
			21,100,000

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 24.

Details of options outstanding at 30 June 2013 including options issued, exercised and forfeited are detailed at Note 24.

Meetings of Directors

During the financial year, 11 meetings of directors (including committees of directors) were held. Attendances by each director during the year were:

Directors' Meeting			Committee Meeting			
			Audit & Compliance		Remuneration	
	Number Eligible to attend	Number Attended	Number Eligible to attend	Number Attended	Number Eligible to attend	Number Attended
Mr Laurence Freedman	8	8	2	2	1	1
Mr Robert Schuitema	8	8	2	2	-	-
The Hon. Pam Allan	8	7	2	2	1	1

Continued →

APPLICATION TO LAKE IN WALES

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 $24,658 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 proceeding. The Company was not a party to any such proceedings during the year.

Non-Audit Services

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

Auditor's Independence Declaration

The lead auditor's independence declaration in accordance with Section 307C of the Corporations Act 2001, for the year ended 30th June 2013 has been received and can be found on page 8 of the directors' report.

Post Balance Date Events

No material events have occurred since 30 June 2013.

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

Robert Schuitema

Managing Director

Dated at Brisbane, 30th August 2013

The Hon. Pam Allan

Non-Executive Director - Chairman of Audit CommitteDated at

Brisbane, 30th August 2013

Auditor's Independence Declaration

Crowe Horwath Brisbane
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A WHK Group Firm

As auditor of Phoslock Water Solutions Limited for the year ended 30 June 2013, I declare that, to the best of my knowledge and belief, there have been:

i. no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review. This declaration is in respect of Phoslock Water Solutions Limited and the entities it controlled during the period.

Crowe Horwath Brisbane

Crowe Horwath Brisbane

Ian Brooks.

Ian Brooks

Partner

Signed at Brisbane, 23 September 2013

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

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

Mr Freedman is Phoslock Water Solutions Limited largest shareholder. Mr Freedman's direct and indirect shareholding in the Company totals 41.2 million shares which is equivalent to 17.2% of the Company's issued capital. A company associated with Mr Freedman hold 1,300 Convertible Notes, which each Note may convert into $1,000 or 21,739 fully paid shares. The holder can elect prior to 31 December, 2013 which redemption option they prefer for each Note. If all the Notes were converted to fully paid shares, Mr Freedman's direct and indirect shareholding in the Company would increase to 69.4 million shares would be equivalent to 25.9% of the Company's increased issued capital. A company associated to Mr Freedman provides debtor factoring facilities from time to time to the Company. This allows the Company to convert a debtor invoice into cash, which is used for working capital by the Company. The terms and conditions provided by the company associated to Mr Freedman is more favourable to the Company than it would obtain from trading banks or specialist debtor financing companies. The Company does not deal with Mr Freedman on these transactions, with the administration of these handled by full time employees of the financing company.

The two directors of the Company, other than Mr Freedman, have considered the ASX Corporate Governance Principles (2.1 and 2.2 – detailed on page 24 of this Annual Report) and believe that it is in the best interests of the Company and it's shareholders having Mr Freedman as non-executive Chairman of the Company.

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

The primary responsibilities of the Board include:

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

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

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

Independent professional advice

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

Remuneration

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

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

Audit committee

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

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

The responsibilities of the Audit Committee include:

- Monitoring compliance with regulatory requirements;
- Improving the quality of the accounting function;
- Reviewing external audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been Identified appropriate and prompt remodel 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 manor.

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 mentor and receive advice on areas of operational and financial risk, and consider strategies for appropriate risk management arrangements.

Specific area 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 their control.

Dealing with conflicts of interest

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

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

A conflict will arise:

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

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

Continued →

← 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 formalized 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
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 (see page 22)
2.2	The chairperson should be an independent director	A	The Company has an independent Chairman (see page 22)
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 company should disclose the process evaluating the performance of the board	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) and any other key executives as to: 3.1.1 The practices necessary to maintain confidence in the companies integrity 3.1.2. The responsibility and accountability of individuals for reporting or investigating reports of unethical practices.	A	The Company has formulated a Code of Conduct which can be viewed on the Company's website. The board continues to review existing procedures over time to ensure adequate processes are in place. All directors, employees and contractors and expected to act with the upmost integrity and objectivity in their dealings with other parties, strving at all times to enhance the reputation and performance of the company.
3.2	Establish a diversity policy with measureable 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 organization, in senior roles on the Board.	A	17% of current employees are female. One of the 3 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 consists of: • Only Non-Executive Directors • A majority of independent Directors • An Independent chair person who is not the chair person of the board • At least three members	A	The Audit Committee currently consists of two Directors. The charter of this Committee is disclosed on the Company's website. The chair of the Audit Committee is not the Chairman of the Board. All Audit Committee members are financially literate.
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 Principal 4.	A	A copy of the charter is on the Company's website

ASX Principle		Company Status & Reference/Comment	
Principle 5: Make timely and balanced disclosure			
5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements 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 Principal 5.	A	The Company publishes and releases the ASX quarterly reports on cash flow as well as audited 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 share holders 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 the 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 Principal 6.	A	This disclosure is through regular shareholder communications including the Annual Report, Quarterly Reports, the Company website and its distribution of specific releases covering major transactions or events, as they arise.
Principle 7: Recognise and manage risk			
7.1	The Board or appropriate 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: • 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 is 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 Principal 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:- (i) Contains majority of independent directors. (ii) Is chaired by an independent director. (iii) Has at least three members.	A	The Remuneration Committee consist of 2 members both Non-Executives 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 2013

	Note	2013	2012
		$	$
Sales revenue	2	1,313,344	1,048,246
Cost of sales		(798,919)	(515,542)
Gross profit		**514,425**	**532,704**
Other revenue	2	316,606	449,304
Distribution expenses		(130,151)	(100,677)
Marketing expenses		(301,428)	(284,959)
Occupancy expenses		(158,080)	(170,432)
Administrative expenses		(679,704)	(723,003)
Employee benefit expenses		(1,315,679)	(1,309,014)
Depreciation and amortisation	3	(61,836)	(46,947)
Finance costs		(244,585)	(157,034)
Impairment of receivables		-	(10,000)
Loss Before Income Tax		**(2,060,431)**	**(1,820,058)**
Income tax expense/ (revenue)	4	-	-
Loss For The Year		**(2,060,431)**	**(1,820,058)**
Other comprehensive income			
Exchange differences arising on translation of foreign controlled entities		249,148	93,031
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(1,811,283)**	**(1,727,027)**
Profit (Loss) for the year attributable to:			
- Owners of parent entity		(2,001,391)	(1,749,368)
- non-controlling interest		(59,040)	(70,690)
Total loss for the year		**(2,060,431)**	**(1,820,058)**
Total comprehensive income /(loss) attributable to:			
- Owners of parent entity		(1,778,267)	(1,703,852)
- non-controlling interest		(33,016)	(23,175)
Total comprehensive loss for the year		**(1,811,283)**	**(1,727,027)**
Earnings per share			
Basic earnings per share (cents per share)	7	(0.90)	(0.82)
Diluted earnings per share (cents per share)	7	(0.86)	(0.82)

The accompanying notes form part of these financial statements

Consolidated Statement Of Financial Position
for the year ended 30 June 2013

	Note	2013	2012
		$	$
ASSETS			
Current Assets			
Cash and cash equivalents	8	409,760	384,381
Trade and other receivables	9	472,842	656,904
Inventories	10	358,457	630,060
Other assets	14	39,087	27,859
Total Current Assets		**1,280,147**	**1,699,204**
Non-Current Assets			
Trade and other receivables	9	-	8,562
Financial assets		35,349	-
Plant and equipment	12	144,946	194,607
Intangible assets	13	-	-
Total Non-Current Assets		**180,295**	**203,169**
TOTAL ASSETS		**1,460,441**	**1,902,373**
Current Liabilities			
Trade and other payables	15	311,405	286,044
Financial liabilities	16	1,577,402	1,346,684
Short-term provisisions	17	203,881	204,631
Total Current Liabilities		**2,092,688**	**1,837,359**
Non-Current Liabilities			
Long-term provisions	17	104,642	121,780
Total Non-Current Liabilities		**104,642**	**121,780**
Total Liabilities		**2,197,330**	**1,959,139**
NET ASSETS/(LIABILITIES)		**(736,889)**	**(56,766)**
EQUITY			
Issued capital	18	31,731,715	30,632,302
Reserves	19	514,815	200,906
Retained earnings		(32,686,216)	(30,684,826)
Owner's interest		(439,685)	148,382
Non-controlling interest		(297,204)	(205,148)
TOTAL EQUITY		**(736,889)**	**(56,766)**

The accompanying notes form part of these financial statements

Continued →

Consolidated Statement of Changes in Equity for the year ended 30 June 2013

	Notes	Issued capital $	Option Reserves	Foreign currency translation reserves $	Non controlling interests $	Accumulated losses $	Total $
30 June 2012							
Balance at 1 July 2011		30,589,302	-	155,390	(181,973)	(28,935,458)	1 ,627,261
Total comprehensive income							
Loss for the year		-	-	-	(70,690)	(1,749,368)	(1,820,058)
Other comprehensive income		-	-	45,516	47,515	-	93,031
Total comprehensive loss for the year		-	-	**45,516**	**(23,175)**	**(1,749,368)**	**(1,727,027)**
Transactions with owners in their capacity as owners							
Shares issued during the year		46,000	-	-	-	-	46,000
Total transactions with owners in their capacity as owners		43,000	-	-	-	-	43,000
Balance at 30 June 2012		**30,632,302**	-	**200,906**	**(205,148)**	**(30,684,826)**	**(56,766)**
30 June 2013							
Balance at 1 July 2012		**30,632,302**	-	**200,906**	**(205,148)**	**(30,684,826)**	**(56,766)**
Total comprehensive income							
Profit/(loss) for the year		-	-	-	(59,040)	(2,001,390)	(2,060,430)
Other comprehensive incomet		-	-	282,164	(33,016)	-	249,148
Total comprehensive income/(loss)		-	-	**282,164**	**(92,056)**	**(2,001,390)**	**(1,811,282)**
Transactions with owners in their capacity as owners							
Shares issued during the year		1 ,197,663	31,745	-	-	-	1 ,229,408
Shares held as treasury		(92,000)					(92,000)
Transaction costs		(6,250)	-	-	-	-	(6,250)
Total transactions with owners in their capacity as owners		**1 ,099,413**	**31,745**	-	-	-	**1 ,131,158**
Balance at 30 June 2013		**31,731,715**	**31,745**	**483,070**	**(297,204)**	**(32,686,216)**	**(736,890)**

The accompanying notes form part of these financial statements

Consolidated Statement of Cash Flows
for the year ended 30 June 2013

	Note	2013	2012
		$	$
CASHFLOW FROM OPERATING ACTIVITIES			
Receipts from customers		1 ,442,537	2 ,043,337
Payments to suppliers and employees		(2,380,600)	(2,986,629)
Interest received		3,875	7,932
Finance costs		(244,584)	(157,034)
Net cash from used in operating activities	22 (a)	(1,178,772)	(1,092,394)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(87,428)**	**(95,100)**
Net cash from used in investing activities		**(87,428)**	**(95,100)**
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from share issue		1 ,105,663	6,000
Transaction costs		(6,250)	(3,000)
Proceeds from borrowings		183,702	1 ,063,051
Repayment of borrowings		-	-
Net cash from financing activities		**1 ,283,115**	**1 ,066,051**
Net increase/(decrease) in cash and cash equivalents held		16,915	(121,443)
Cash and cash equivalents at the beginning of the period		384,381	509,588
Effect of exchange rates on cash holdings in foreign currencies		8,464	(3,764)
Cash and cash equivalents at the end of the period	8	**409,760**	**384,381**

The accompanying notes form part of these financial statements

Notes to the Financial Statements for the year ended 30 June 2013

Note 1 - Statement Of Significant Accounting Policies

These financial statements include the consolidated financial statements and notes of Phoslock Water Solutions Limited ('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.

The financial statements were authorised for issue by the Board of Directors on 30 August 2013.

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.

New and amended standards adopted.

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2012 affected any of the amounts recongised in the current period or any prior period and are not likely to affect future periods.

Early adoption of standards

The company has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2013.

The following is a summary of the material accounting policies adopted by the consolidated entity in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

(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.

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.

Continued →

(f) Borrowing Costs

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

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

Phoslock Water Solutions Limited 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) Plant and Equipment

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

Plant and equipment

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

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

Depreciation

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

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

Class of Fixed Asset	Depreciation Rate
Plant & Equipment	10-33%
Office Equipment	15-33%
Office Furniture	20%
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 or losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

Continued →

(m) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership are transferred to the entity 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. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the consolidated entity will obtain ownership of the asset or over the term of the lease. 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 to profit and loss on a straight line basis over the period of the lease.

(n) Impairment of Assets

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

(o) 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 and 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 assets are non-derivative financial assets with fixed or determinable payments and fixed maturities at the groups management has the positive intention and ability to hold to maturity. Held-to-maturity assets are carried at amortised cost using the effective interest 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.

(iii) **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.

(p) Investment 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.

(q) 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.

(r) 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.

(s) 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.

(t) 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.

(u) 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

Basic earnings per share

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

Diluted earnings per share

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

Continued →

(v) 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.

(w) 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.

(ii) Estimation of useful lives of assets

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

(iii) Provision for impairment of receivables

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

(iv) Long Service Leave Provision

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

(x) Comparative Figures

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

(y) 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 may impact the entity in the period of initial application. They are available for early adoption at 30 June 2013, but have not been applied in preparing this financial report.

(i) AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement

These amendments are applicable to annual reporting periods beginning on or after 1 July 2013, with early adoption not permitted. They amend AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). The adoption of these amendments from 1 July 2013 will remove the duplication of information relating to individual KMP in the notes to the financial statements and the directors report. As the aggregate disclosures are still required by AASB 124 and during the transitional period the requirements may be included in the Corporations Act or other legislation, it is expected that the amendments will not have a material impact on the Consolidated Entity.

(ii) AASB 2011-7 Amendments to Australian Accounting

Standards arising from the Consolidation and Joint Arrangements Standards The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments make numerous consequential changes to a range of Australian Accounting Standards and Interpretations, following the issuance of AASB 10, AASB 11, AASB 12

and revised AASB 127 and AASB 128. The adoption of these amendments from 1 July 2013 will not have a material impact on the Consolidated Entity.

(iii) AASB 12: ' Disclosure of interest in other Entities'
This standard is applicable to annual reporting periods beginning on or after 1 January 2013. It contains the entire disclosure requirement associated with other entities, being subsidiaries, associates and joint ventures. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation - Special Purpose Entities'. The adoption of this standard from 1 July 2013 will significantly increase the amount of disclosures required to be given by the consolidated entity such as significant judgements and assumptions made in determining whether it has a controlling or non-controlling interest in another entity and the type of non-controlling interest and the nature and risks involved.

(iv) AASB 10: 'Consolidated Financial Statements
This standard replaces the part of IAS 27: 'Consolidated and Separated Financial Statements' and is applicable for the annual period beginning 1 January 2013. This new standard introduces a new definition of control that determines which entities are consolidated. This new definition of control may potentially lead to the consolidation of entities that were not previously included in the Consolidated Entity resulting in more assets and liabilities on the books. The Consolidated Entity is currently assessing the impact of this standard.

To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128 have also been issued. These Standards are

(v) AASB 9 Financial Instruments
AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 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.

Continued →

Note 2 Revenue

	Note	2013	2012
		$	$
Sales Revenue			
- sale of goods		1,313,344	1,048,246
Trust sales revenue		**1,313,344**	**1,048,246**
Other income			
- interest received	2 (a)	3,874	7,932
- export development/r&d grants		289,683	453,821
- foreign currency tranlsation gains		23,049	(12,449)
- other income		-	-
		316,606	**449,304**
Total Sales and other income		**1,629,950**	**1,497,550**
(a) Interest revenue from:			
- other persons		3,874	7,932
- related parties			
		3,874	**7,932**

Note 3 Loss For The Year

Loss for the year is determined after incurring the following expense items:

			Consolidated Group
	Note	2013	2012
		$	$
Expenses			
Cost of sales		798,919	515,542
Finance costs:			
- related party		244,585	157,034
Total finance costs		**244,585**	**157,034**
Rental expense on operating leases			
- minimum lease payments		44,658	170,432
Loss/(gain) on disposal of plant and equipment		-	-
Superannuation contributions		96,242	125,072
Depreciation		61,836	46,947
Impairment of investments in subsidiaries		-	-

Note 4 Income Tax Expense

			Consolidated Group
	Note	2013	2012
		$	$
(a) Income tax expense			
- current year		-	-
- deferred tax		-	-
		-	-
(b) Numerical reconciliation of income tax expense to prima facie tax payable			
Operating profit/ (loss) before tax		**(2,060,431)**	**(1,820,058)**
Tax at the Australian tax rate of 30% (2012 - 30%)		**(618,129)**	**(546,017)**
Tax effect of:			
- Non-deductable impairment losses and depreciation and amortisation		-	-
- Other non-allowable items		9,536	374
- Other non-assessable items		(5,221)	(113,362)
- Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductability set out in Note 1(g) occur.			
		(613,814)	**(659,005)**
(c) Unrecognsed deferred tax assets			
Accumulated losses		27,457,952	22,930,462
Potential tax losses		8,099,260	6,879,139
Temporary differences - accruals and provisions		356,418	405,129
Potential tax benefit		106,925	121,539
Total deferred tax assets not bought to account		**8,206,185**	**7,000,677**

Continued →

Note 5 Key Management Personnel Compensation

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

Key Management Person	Position
Mr Laurence Freedman	Chairman - Non Executive
Mr Robert Schuitema	Managing Director and Company Secretary
The Hon. Pam Allan	Director - Non Executive
Mr Eddie Edmunds	General Manager - North America (resigned January, 2013)
Mr Nigel Traill	General Manager - Europe & Americas
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	
	2013	2012
	$	$
Short term employee benefits	873,298	894,523
Post employment benefits	81,417	86,263
Long term benefits	14,558	28,818
Equity compensation benefits	31,320	-
Total compensation	**1,000,593**	**1,009,604**

(b) Options and Right Holdings: Number of Options held by Key Management Personnel

	Balance 1.07.2012	Options Acquired	Options Exercised	Net Charge Other	Balance 30.06.2013	Total vested 30.06.2013	Total Exercisable 30.06.2013	Total Unexercisable 30.06.2013
	No.	No.	No.	No.	No.	No.		
Mr Laurence Freedman	-	-	-	-	-	-	-	-
Mr Robert Schuitema	-	15,000,000	-	-	15,000,000	-	-	15,000,000
The Hon. Pam Allan	-	-	-	-	-	-	-	-
Mr Eddie Edmunds	-	-	-	-	-	-	-	-
Mr Nigel Traill	-	2,500,000	-	-	2,500,000	-	-	2,500,000
Dr Sarah Groves	-	500,000	-	-	500,000	-	-	500,000
Mr Andrew Winks	-	2,500,000	-	-	2,500,000	-	-	2,500,000
Total	**-**	**20,500,000**	**-**	**-**	**20,500,000**	**-**	**-**	**20,500,000**

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

(c) Shareholdings: Number of shared held by Key Management Personnel

30 June 2013	Balance 1.07.2012	Received as Compensation	Options Exercised	Net Charge Other*	Balance 30.06.2013
Key Management Personnel					
Mr Laurence Freedman	39,291,620	-	-	1,401,653	40,693,273
Mr Robert Schuitema	6,388,619	-	-	1,418,043	7,806,662
The Hon. Pam Allan	150,000	-	-	150,000	300,000
Mr Eddie Edmunds	1,090,909	-	-	(1,090,909)	-
Mr Nigel Traill	3,355,074	-	-	200,000	3,555,074
Dr Sarah Groves	190,909	-	-	326,087	516,996
Mr Andrew Winks	100,000	-	-	326,087	426,087
Total	**50,567,131**	-	-	**2,730,961**	**53,298,092**

* 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 also shown as in Net Change Other.

30 June 2012	Balance 1.07.2011	Received as Compensation	Options Exercised	Net Charge Other*	Balance 30.06.2012
Key Management Personnel					
Mr Laurence Freedman	36,557,906	-	-	2,733,714	39,291,620
Mr Robert Schuitema**	6,071,787	-	-	316,832	6,388,619
The Hon. Pam Allan	150,000	-	-	-	150,000
Mr Eddie Edmunds	90,909	-	-	1,000,000	1,090,909
Mr Nigel Traill	3,355,074	-	-	-	3,355,074
Dr Sarah Groves	190,909	-	-	-	190,909
Mr Andrew Winks	100,000	-	-	-	100,000
Total	**46,516,585**	**-**	**-**	**4,050,546**	**50,567,131**

* 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 also shown as in Net Charge Other.

** Related party shareholding previously not shown has been included in Net Charge Other

Note 6 Auditors Remuneration

	2013	2012
	$	$
Remuneration of the auditor of the parent entity for:		
- auditing or reviewing of the financial report	69,600	67,000
Remuneration of other auditors of subsidiaries for:		
- auditing or reviewing othe financial report of subsidiaries	8,700	7,000

Continued →

Note 7 Earnings Per Share

(a) Reconcilliation of earnings to profit and loss

	Consolidated Group	
	2013	2012
	$	$
Profit / (Loss)	(2,060,431)	(1,820,058)
Profit / (Loss) attributale to minority equity interest	59,040	70,690
Earnings used to calculate basic EPS	**(2,001,391)**	**(1,749,368)**
Earnings used in the calculation of dilutive EPS	**(2,001,391)**	**(1,749,368)**

(b) Reconcilliation of earnings to profit and loss

	$	$
Loss from continuing operations	(2,060,431)	(1,820,058)
Loss attributable to non-controlling interest in respect of continuing operations	59,040	70,690
Earnings used to calculate basic EPS from continuing operations	**(2,001,391)**	**(1,749,368)**
Earnings used in the calculation of dilutive EPS from continuing operations	**(2,001,391)**	**(1,749,368)**

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

	No.	No.
Weighted average number of shares	228,983,444	213,125,662
Weighted average number of options outstanding & shares issued by convertible notes	28,260,870	-
Weighted average number of ordinary shares outstanding during the year used in the calculation of EPS	**257,244,314**	**213,125,662**

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	2013	2012
		$	$
Cash at band and in hand		409,760	384,381
Reconciliation of cash			
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the financial position as follows:			
Cash and cash equivalents		409,760	384,381
		409,760	**384,381**

The bank holds security over a cash deposit account of $35,349 (2012:$33,935)

Note 9 Trade And Other Receivables

	Note	2013	2012
		$	$
CURRENT			
Trade receivables		54,742	457,454
Less provision for impairment	9 (a)	-	-
		54,742	**457,454**
Loans to related parties	(i)	102,100	126,200
Grant income receivables		316,000	73,250
		418,100	**199,450**
		472,842	**656,904**
NON-CURRENT			
Trade and other receivables	(ii)	35,349	8,562
		35,349	**8,562**

(i) Loans to executives to purchase Phoslock shares; details in Note 26.

(ii) This includes term deposits with an average effective interest of 2.5% and maturity of 120 days.

(a) Provision For Impairment of Receivables

	Opening Balance 1.07.2012	Change for the Year	Amounts Written Off	Closing Balance 30.03.2013
	$	$	$	$
Current trade receivables	-	-	-	-

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

2013	Gross Amount $000	Past Due and Impaired $000	Past Due but Not Impaired (Days Overdue)				Within initial Trade Terms $000
			<30 $000	31-60 $000	61-90 $000	90> $000	
Trade and other receivables	54,742	-	-	-	-	-	54,742
Other receivables	418,100	-	-	-	-	-	418,100
Total	**472,842**	-	-	-	-	-	**472,842**
2012							
Trade and other receivables	457,454	-	112,667	-	-	131,180	213,607
Other receivables	199,450	-	-	-	-		199,450
Total	**656,904**	**0**	**112,667**	**0**	**0**	**131,180**	**413,057**

Continued →

Note 10 Inventories

	2013	2012
	$	$
CURRENT		
At cost		
Raw materials and stores	35,128	32,548
Finished goods	323,329	597,512
	358,457	**630,060**

Note 11 Parent Entity Information

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

(a) Parent Entity Financial Information

	2013	2012
	$	$
Current assets	353	883
Non-current assets	4,158,055	-
Total assets	**4,158,408**	**883**
Current liabilities	1,300,000	-
Total liabilities	-	-
Net assets	**2,858,408**	**883**
Issued capital	31,823,715	30,632,302
Treasury Stock	(92,000)	-
Share based payment reserve	31,745	-
Accumulated lossess	(28,905,052)	(30,631,419)
Total Equity	**2,858,408**	**883**
Profit/(Loss) after income tax	(101,757)	(1,812,658) *
Other comprehensive income	-	-
Total comprehensive income	**(101,757)**	**(1,812,658)**

* Includes write down of receivables and investments of wholly owned subsidiaries of $0 (2012: $1,828,125)

Phoslock Water Solutions Ltd received shareholder approval to issued $1.3 million Convertible Notes on 15 February, 2013 to Link Traders (Aust) Pty Ltd (a party related to Laurence Freedman) on normal commercial terms. The Convertible Notes are convertible into PHK Shares at $0.046 shares per share or repayable on 31 December 2013.

(b) Controlled Entities of the Parent Entity

	Country of Incorporation	Percentage Owned (%)*	
		2013	2012
Subsidiaries of Phoslock Water Solutions Limited:			
Phoslock Pty Ltd	Australia	100	100
Phoslock Technologies Pty Ltd	Australia	100	100
Phoslock International Pty Ltd	Australia	100	100
IETC Enviornmental Protection Technology (Kunming) Ltd	China	71	71
Phoslock Water Solutions UK Co Ltd	United Kingdom	100	100
Phoslock Europe GmbH	Switzerland	60	60

* Percentage of voting power is in proportion to ownership

Note 12 Plant And Equipment

	2013	2012
	$	$
Plant and equipment, at cost	793,194	790,958
Less accumulated depreciation	(648,248)	(596,351)
	144,946	**194,607**

(a) Movements in Carrying Amounts

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

	Plant and Equipment	Total
	$	$
Balance at 1 July 2012	194,607	194,607
Additions	2,236	2,236
Disposals	-	-
Depreciation expense	(61,836)	(61,836)
Exchange differences	9,939	9,939
Balance at 30 June 2013	**144,946**	**144,946**
Balance at 1 July 2011	165,227	165,227
Additions	95,100	95,100
Disposals	-	-
Depreciation expense	(46,947)	(46,947)
Exchange differences	(18,773)	(18,773)
Balance at 30 June 2012	**194,607**	**194,607**

Continued →

← Note 13 Intangible Assets

	2013	2012
	$	$
Trademarks and licences		
Cost	4,159,660	4,159,660
and impairment	(4,159,660)	(4,159,660)
Exchange differences		
Net carrying value	-	-
Development costs		
Cost	323,740	323,740
and impairment	(323,740)	(323,740)
Net carrying value	-	-
Total intangibles	-	-

There has been no movement in the intangible assets for both 2013 and 2012 as such no movement schedule has been presented.

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. Note there has been no amortisation on intangible assets for both 2013 and 2012 financial years as the intangibles have been fully impaired.

Impairment of Trademarks & Licences and Development Costs as at 30 June 2013

In 2011, the directors 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 4 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 used are 13% 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

	2013	2012
	$	$
CURRENT		
Prepayments	10,455	27,859
VAT deposit guarantee	28,632	-
	39,087	**27,859**

Note 15 Trade And Other Payables

	2013	2012
	$	$
CURRENT		
Unsecured liabilities		
Trade payables	263,521	207,327
Sundry payables and accrued expenses	47,884	78,717
	311,405	**286,044**

Note 16 Financial Liabilities

	2013	2012
	$	$
CURRENT		
Unsecured related party loans - Convertible Notes due 31 December 2013	1,300,000	1,113,921
Joint venture partner loan/supplier advance	277,402	230,386
Secured liabilities		
Lease liability	-	2,377
	1,577,402	**1,346,684**

Details of the terms and conditions of related pary loans are included in Note 26.

Continued →

← Note 17 Provisions

	2013	2012
	$	$
CURRENT		
Employee Entitlements		
Opening Balance at 1 July 2012	204,631	144,318
Additional provisions	72,614	78,827
Amounts used	(73,364)	(18,514)
Balance at 30 June 2013	**203,881**	**204,631**

	2013	2012
	$	$
NON CURRENT		
Employee Entitlements		
Opening Balance at 1 July 2012	121,780	91,729
Additional provisions	14,558	30,051
Amounts used	(31,696)	-
Balance at 30 June 2013	**104,642**	**121,780**

	2013	2012
	$	$
Analysis of Total Provisions		
Current	203,881	204,631
Non-current	104,642	121,780
	308,523	**326,411**

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

	2013	2012
	$	$
239,566,732 (2012: 213, 530,580) fully paid ordinary shares	31,731,715	30,632,302
	31,731,715	**30,632,302**

(a) Ordinary Shares

	2013	2013	2012	2012
	No.	$	No.	$
At the beginning of reporting year				
Shares issued during the year:	213,530,580	30,632,302	212,930,580	30,589,302
- 29 November 2011			100,000	6,000
- 22 March 2012			500,000	40,000
- 18 February 2013	23,166,587	1,065,663		
- 26 February 2013	2,869,565	132,000		
Held as treasury	(2,000,000)	(92,000)		
Transaction Costs		(6,250)		(3,000)
Balance at the end of the year	**237,566,732**	**31,731,715**	**213,530,580**	**30,632,302**

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.

Continued →

← Note 18 Issued Capital contined

(b) Options

(i) For information relating to Phoslock Water Solutions Limited employee options, including details of options issued, exercised and lapsed during thefinancial year and the options outstanding at year-end. Refer to Note 24: Options.

(ii) For information relating to share options issued to key management personnel during the financial year. Refer to Note 24: Options.

(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.

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

The Company converted the debt facility of $1.3 million with a scheduled maturity of 29 March 2013 into Convertible Notes upon the granting of approval from shareholders, which was received on 15 February, 2013 . 1,300 Converible Notes with a face value of $1,000 each were issued, with a Maturity Date of 31 December, 2013. Interest is payable monthly on the Notes at 15% pa. Each Note converts into 21,739 fully paid Ordinary Shares. The holder of the Notes can elect to be repaid on the maturity date. The gearing ratio's for the year ended 30 June 2012 and 30 June 2011 are as follows:

	Note	2013	2012
		$	$
Total borrowings	15, 16	1,888,807	1,863,114
Less cash and cash equivalents	8	(409,760)	(384,381)
Net debt		1,479,047	1,478,733
Total equity		(736,889)	(56,766)
Total assets		**1,460,441**	**1,902,373**
Gearing ratio		201%	2605%

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. Options were issued during FY2013. An option expense of $31,745 was recorded in Employee benefit expenses. This amount was also credited to the Option reserve (see Consiolidated Statement of Changes in Equity).

Note 20 Capital And Leasing Commitments

	2013	2012
	$	$
a) Finance Lease Commitments		
Payable - minimum lease payments	-	2,377
- not later than 12 months	-	-
- between 12 months and 5 years	-	-
- greater than 5 years	-	-
Minimum lease payments	-	2,377
Less future finance charges	-	-
Present value of minimum lease payments	-	**2,377**

The finance lease was repaid in full in September 2012.

	2013	2012
	$	$
b) Operating Lease Commitments		
Non-cancellable operating leases contracted for but not capitalised		
Payable - minimum lease payments		
- not later than 12 months	44,658	149,040
- between 12 months and 5 years	-	65,489
- greater than 5 years	-	-
	44,658	**214,529**

Lease 1 is a non-cancelable lease for Sydney office expiring 30 September, 2013. Rent is payable monthly in advance. Lease 2 is a non-cancelable lease expiring 31 December, 2013. 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.

Continued →

← 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 2013							
Revenue							
External sales	76,800	508,402	703,232	24,910	1,313,344	-	1,313,344
Inter-segment sales	254,244	36,043	-	-	290,287	(290,287)	-
Other revenue	312,732				312,732	-	312,732
Total segment revenue	**643,776**	**544,445**	**703,232**	**24,910**	**1,916,363**	**(290,287)**	**1,626,076**
Reconcilliation of segment revenue to group revenue							
Unallocated interest income							3,874
Total group revenue							**1,629,950**
Segment loss before tax	**(1,085,780)**	**93,275**	**54,913**	**(89,537)**	**(1,027,130)**		**(1,027,130)**
Reconcilliation of segment result to group net profit/(loss) before tax							
Amounts not included in segment result but reviewed by the board:							
- Depreciation and amortisation					-	-	**(61,836)**
Unallocated items:							
- Corporate charges							(726,880)
- Finance costs							(244,585)
Loss before income tax from continuing operations							**(2,060,430)**
Twelve months ended 30 June 2012							
Revenue							
External sales	172,708	381,906	493,632	-	1,048,246	-	1,048,246
inter-segment sales	-	176,005	-	348,895	524,900	(524,900)	-
Other revenue	441,372	-	-	-	441,372	-	441,372
Total segment revenue	**614,080**	**557,911**	**493,632**	**348,895**	**2,014,518**	**(524,900)**	**1,489,618**
Reconcilliation of segment revenue to group revenue							7,932
Total group revenue							1,497,550
Segment loss before tax	**(1,071,281)**	**74,721**	**60,000**	**104,415**	**(832,145)**	-	**(832,145)**
Profit/(loss) before tax							
Amounts not included in segment result but							
- Depreciation and amortisation	**(16,839)**	-	-	**(30,108)**	**(46,947)**	-	**(46,947)**
Unallocated items:							
- Corporate charges							(783,932)
- Finance costs							(157,034)
Loss before income tax from continuing operations							**(1,820,058)**

Continued →

← Note 21 Segment Reporting contined

(ii) Segment assets

	Australia/NZ	Europe/UK	North America	Asia	Total	Eliminations	Total
30 June 2013	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Segment assets	6,372,687	151,047	-	113,330	6,637,064	(5,084,623)	1,552,441
Unallocated assets - intangibles							-
Total group assets							**1,552,441**

	Australia/NZ	Europe/UK	North America	Asia	Total	Eliminations	Total
30 June 2012	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Segment assets	4,464,279	101,398	-	280,194	4,845,871	(2,943,489)	1,902,382
Unallocated assets - intangibles							-
Total group assets							**1,902,382**

(iii) Segment liabilities

	Australia/NZ	Europe/UK	North America	Asia	Total	Eliminations	Total
30 June 2013	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Segment liabilities	5,334,411	1,061,539	-	400,970	6,796,919	(4,599,589)	2,197,330
Unallocated liabilities							-
Total group liabilities							**2,197,330**

	Australia/NZ	Europe/UK	North America	Asia	Total	Eliminations	Total
30 June 2012	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Segment liabilities	2,863,188	949,693	-	299,214	4,112,095	(2,152,956)	1,959,139
Unallocated liabilities							-
Total group liabilities							**1,959,139**

(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 35% of external revenue (2012:33%)

Note 22 Cash Flow Information

	2013	2012
Reconciliation of net cash from operating activities to operating profit after income tax	**$**	**$**
Net loss after income tax	(2,060,431)	(1,820,058)
Cash flows excluded from loss attributable to operating activities		
Depreciation	(61,836)	46,947
Net exchange differences	390,411	115,563
Impairment of receivables	-	(51,133)
Change in assets/liabilities		
(Increase)/decrease in trade and term receivables	256,604	539,517
(Increase)/decrease in prepayments	17,404	35,474
(Increase)/decrease in inventories	271,603	15,945
Increase/(decrease) in trade payables and accruals	25,361	(65,013)
Increase/(decrease) in provisions	(17,888)	90,364
Cash flow used in operating activities	**(1,178,772)**	**(1,092,394)**

Note 23 Share-Based Payments To Executives And Directors

No share based payments were made to executibes or directors during the year (2012: $0)

Note 24 Options

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

	2013		2012	
	Number of options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
		$		**$**
Outstanding at the beginning of the year	150,000	0.15	300,000	0.15
Granted	21,100,000	0.10	-	
Forfeited			-	
Exercise			-	
Expired	(150,000)	0.15	(150,000)	
Outstanding at year-end	**21,100,000**	**0.10**	**150,000**	**0.15**
Exercisable at year-end	-	**0.10**	**150,000**	**0.15**

21,100,000 new performance options were issued during the year ended 30 June 2013 (2012:0)

The options outstanding at 30 June 2013 had a weighted average exercise price of $0.10 and a weighted average remaining contractual life of 1.4 years.

15,000,000 perfomance options were issued to Mr Robert Schuitema, Managing Director after shareholder approval was obtained at a General Meeting on 15 February, 2013. All options have performance criteria relating to the level of revenue generated by the company during 2013, 2014 & 2015.

2,500,000 options were issued to Mr Nigel Traill, General Manager Europe.UK & Americas. 2,000,000 of the options have performance criteria relating to the level of revenue generated by the company during 2013 and 2014 in Europe/UK and the Americas. 500,000 of the options are subject to being employed by the company as at 31 December, 2013 and 31 December, 2014

2,500,000 options were issued to Mr Andrew Winks, General Operations. 2,000,000 of the options have performance criteria relating to the level of revenue generated by the company during 2013 and 2014. 500,000 of the options are subject to being employed by the company as at 31 December, 2013 and 31 December, 2014

500,000 of the options were issued to Dr Sarah Groves, General Manager Technical. These options are subject to being employed by the company as at 31 December, 2013 and 31 December, 2014

600,000 options were issued to consultants used by the company in Europe and are subject to performance criteria during 2013 and 2014.

Continued →

Note 25 Events Subsequent To Balance Date

The Chinese Joint Venture for manufacturing in China has a 10 year fixed period and expires in December, 2013. By mutual agreement, the Joint Venture partners have decided to not renew the Joint Venture.
The Joint Venture will be liquidated in the second half of 2013 and cease to operate after December, 2013.
The Company has made arrangements to toll manufacture Phoslock at a plant in China closer to key raw materials and transportation hubs.

Note 26 Related Parties

	2013	2012
	$	$
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		
Services provided on a normal commercial basis by parties related to specified executives		
Margaret Schuitema – part time employment (1)	60,000	60,000
Yolanda Winks – part time employment (2)	30,000	27,500
Ben Schuitema – part time employment (1)	20,240	-
Tayla Edmunds – part time employment (3)	15,000	-
Martin Schuitema – part time employment (1)	23,805	-
(b) Transactions with related parties		
Link Traders (Aust) Pty Ltd – interest on loans (4) (12)	244,585	157,034
Radar Group Pty Ltd – investor relations, web design and web services (5)	52,983	75,500
(c) Balances with related parties		
Robert Schuitema – loan from Phoslock Pty Ltd (6)	82,500	75,000
Nigel Traill – loan from Phoslock Pty Ltd (7)	4,600	-
Andrew Winks – loan from Phoslock Pty Ltd (8)	7,500	-
Dr Sarah Groves – loan from Phoslock Pty Ltd (9)	7,500	-
Eddie Edmunds - loan from Phoslock Pty Ltd (10)	-	51,200
Link Traders (Aust) Pty Ltd – loan to Phoslock Pty Ltd (4) (11)	1,300,000	998,921
Sail Ahead Pty Ltd – loan to Phoslock Pty Ltd (1) (13)	-	115,000

(1) related party of Robert Schuitema

(2) related party of Andrew Winks

(3) related party of Eddie Edmunds

(4) Laurence Freedman is a director of this company

(5) related party of Laurence Freedman

(6) two loans granted for the acquisition of 1,826,746 Phoslock shares.One loan is repayable in full by 30 November, 2013 and the other 30 September 2014; interest rates - 0%

(7) loan granted for the acquisition of 200,000 Phoslock shares.The loan is repayable in full by 30 November, 2013; interest rate – 0% (8) loan granted for the acquisition of 326,746 Phoslock shares.The loan is repayable in full by 30 November, 2013; interest rate – 0% (9) loan granted for the acquisition of 326,746 Phoslock shares.The loan is repayable in full by 30 November, 2013; interest rate – 0% (10) loan granted for the aquistion of Phoslock shares repaid in full.

(11) Convertible Notes issued by Phoslock Water Solutions Ltd convertible/ repayable by 31 December, 2013; interest rate – 15%

(12) interest paid on loans, debt factoring to Phoslock Pty Ltd and Convertible Notes to Phoslock Water Solutions Ltd

(13) loan repaid in September, 2012

Note 27 Going concern

The consolidated entity has incurred a significant loss after income tax of $2,060,431 (2012 $1,820,058), for the year ended 30 June 2013 in respect of the principal activities relating to the commercialisation of Phoslock. The consolidated entity has accumulated losses of $32,686,216 (2012 : $30,684,826) as at 30 June 2013. The company has net liabilities of $736,889 (2012:($56,766)) and $1.3 million of Convertible Notes maturing in December 2013.

The current year sales from Phoslock amounted to $1,313,344 (2012: $1,048,246), which were significantly less than management's forecast of between $3 -5 million (2012: $2,194,466). The reduced sales in the current year have had an impact on the company's cashflow and operating performance.

The total liabilities of the company as at 30 June 2013 totalled $2,197,330 (2012:$2,189,525) made up of trade creditors $311,405 (2012:$286,044,) employee entitlements accrued 308,523 (2012:$326,411, loan by joint venture partner to Phoslock Europe $277,402, and Convertible Notes of $1,300,000. At the date of this report the company had cash reserves of $409,760 (2012:$384,381).

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 is liabilities in the normal course of business.

The director's 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. The key underlying assumption of the directors in preparing the report ont he going concern basis are:

- the consolidated entity 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 detailed cash flows, which reflect the detailed assumptions below, indicate a forecast cash balance of $700,000 from the issuing of the financial report.
- The budget for the period August 2013 to September 2014 approved by the directors, which underpins the abovementioned cash flow forecasts, is dependent on sales revenue of $5.3 million, product purchases of $2.3 million, and cash operating costs of $2.3 million, at the same gross margin as the previous year. And operating cash costs of $1.9 million. Implicit in the sales forecast is one major contract for 1000 tonnes for which cash flows forecasted from October 2013 to September 2014.
- This level of revenue would generate slightly positive cash flows from operations and earnings before interest, income tax, depreciation and amortisation and an estimated consolidated net profit of $1 milion.
- the consolidated entity has trade receivables of $472,842 (2012:$656,904) as at 30 June, 2013 on normal commercial terms. The company has the ability to factor receivables as required to support the working capital needs of the consolidated entity.
- the consolidated entity's $1.3 million Convertible Notes mature on 31 December, 2013. At this stage the holder has made no decision to convert the Notes into PHK Shares or seek an extension or request repayment. Based on the forecast cashflow it is unlikely that the company will be in a position to repay the $1.3 million Convertible Notes without it being refinanced or an extension granted by the current holder of the Notes.

Achieving the forecast budget, together with conversion into PHK Shares or extension of the Convertible Notes and collection of trade receivables at 30 June 2013, 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 or an inability to renegotiate the unsecured loan facility will require the board to consider capital funding.
In the event that the company fail to meet its sales target of $5.3 million or renegotiate the unsecured loan facility, the consolidated entity will need to raise capital of at least $1.6 million in order to support its going concern assumption.

The company has forecast cash operating costs of $1.9 million. 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.

Continued →

← Note 27 Going concern continued

The company, and its licensees, are currently working on 43 separate projects (each greater than $100,000) in our key markets (5 in Australia,17 in Europe/UK,3 in Asia, 17 in North America and 1 in central/south America) with sales decisions on a large number of these projects due over the next 12 months. In addition, the company is working on 4 projects with application sizes in 1,000-20,000 plus ton range.

The Company may undertake an equity raising during 2014 however no decision has been made regarding the amount, the timing, structure of any offering or whether it would be targeted towards existing equity holders or new equity holders (Australian or international), including strategic partners. If sales of $4.2 million are not realised, the consolidated entity may need to raise capital in FY2013-14. 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 Exposure 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 28 (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 28 (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. During the year the consolidated group was required to extend credit terms to a long standing customer. As at the date of this report, the creditor has paid 75% of the outstanding balance with the remainder to be paid on or before 15 September, 2012.

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.

(b) Financial Instruments

							Fixed Interest Rate Maturing
	Weighted Average Effective Interest Rate	Floating Interest Rate	Within 1 Year	1 to 5 Years	Over 5 Years	Non- interest bearing	Total
2013	%	$	$	$			
Financial Assets							
Cash and cash equivalents	2.5%	409,760		-	-		409,760
Trade and other receivables			35,349	-	-	472,842	508,191
Total Financial Liabilities		**409,760**	**35,349**	**-**	**-**	**472,842**	**917,951**

							Fixed Interest Rate Maturing
	Weighted Average Effective Interest Rate	Floating Interest Rate	Within 1 Year	1 to 5 Years	Over 5 Years	Non- interest bearing	Total
2012	%	$	$	$			
Financial Assets							
Cash and cash equivalents	4%	384,381	-	-	-		384,381
Trade and other receivables			-	-	-	665,466	665,466
Total Financial Liabilities		**384,381**	-	-	-	**665,466**	**1,049,847**

(b) Financial Instruments

(i) Financial Instrument Composition and Maturity Analysis (cont'd)

							Fixed Interest Rate Maturing
	Weighted Average Effective Interest Rate	Floating Interest Rate	Within 1 Year	1 to 5 Years	Over 5 Years	Non- interest bearing	Total
2013	%	$	$	$			
Financial Liabilities							
Trade and sundry payables	0%	-	-	-	-	311,405	311,405
Convertible Notes	15%	-	1,300,000	-	-	-	1,300,000
Lease liabilities		-	-	-	-	-	-
Shareholder's loan	0%	-	-	-	-	277,402	277,402
Total Financial Liabilities		-	**1,300,000**	-	-	**588,807**	**1,888,807**

							Fixed Interest Rate Maturing
	Weighted Average Effective Interest Rate	Floating Interest Rate	Within 1 Year	1 to 5 Years	Over 5 Years	Non- interest bearing	Total
2012	%	$	$	$			
Financial Liabilities							
Trade and sundry payables	0%	-	-	-	-	286,044	286,044
Convertible Notes	14%	-	1,113,921	-	-	-	1,113,921
Lease liabilities	9.5%	-	2,377	-	-	-	2,377
Shareholder's loan	0%	-	-	-	-	230,386	230,386
Total Financial Liabilities		-	**1,116,298**	-	-	**516,430**	**1,632,728**

Continued →

Note 28 Financial Risk Management Continued

Financial liabilitites are expected to be paid as follows:

	2013	2012
	$	$
Less than 6 months	311,405	403,521
6 months to 1 year	1,300,000	998,821
1-5 years	-	-
over 5 years	277,402	230,386
	1,888,807	**1,632,728**

(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 2013, 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:

	2013	2012
	$	$
Change in profit		
- Increase in interest rate by 1%	5,000	5,000
- Decrease in interest rate by 1%	(5,000)	(5,000)
Change in equity		
- Increase in interest rate by 1%	5,000	5,000
- Decrease in interest rate by 1%	(5,000)	(5,000)

Foreign Currency Risk and Sensitivity Analysis

As at 30 June 2013, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the US Dollar on sales with all other variables remaining constant is as follows:

	2013	2012
	$	$
Change in profit		
- Improvement in AUD to USD by 10%	(191,636)	(201,452)
- Decline in AUD to USD by 10%	191,636	201,452
Change in equity		
- Improvement in AUD to USD by 10%	(191,636)	(201,452)
- Decline in AUD to USD by 10%	191,636	201,452

As at 30 June 2013, 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:

	2013	2012
	$	$
Change in profit		
- Improvement in AUD to Euro by 10%	(54,445)	(54,445)
- Decline in AUD to Euro by 10%	54,445	54,445
Change in equity		
- Improvement in AUD to Euro by 10%	(54,445)	(54,445)
- Decline in AUD to Euro by 10%	54,445	54,445

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 403, Level 4, 25 Lime Street
Sydney, NSW 2000

Note 29 Contingent Liabilities

The company has no contingent liabilities.

Continued →

← Director's Declaration

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Phoslock Water Solutions Ltd.

The directors of the Company declare that:

1. the financial statements and notes, as set out on pages 17 to 58, 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 2013 and of the performance for the year ended on that date of the 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 27 August, 2013.

Robert Schuitema
Managing Director
Dated at Brisbane, 30th August 2013

The Hon. Pam Allan
Non-Executive Director - Chairman of Audit Committe
Dated at Brisbane, 30th August 2013

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SAMPLING ON UK LAKE

APPLICATION TO CALIFORNIA LAKE, UNITED STATES

SEEING IS BELIEVING - BEFORE AND AFTER

Independent Auditor's Report

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A WHK Group Firm

To the members of Phoslock Water Solutions Limited

Report on the Financial Statements

We have audited the accompanying financial report of Phoslock Water Solutions Limited, which comprises the statements of financial position as at 30 June 2013, the statements of comprehensive income, the statements of changes in equity and the statements 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 company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

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 about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view 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 company'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. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the members of Phoslock Water Solutions Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

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A WHK Group Firm

Opinion

In our opinion the financial report of Phoslock Water Solutions Limited is 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 2013 and of its' performance for the year ended on that date; and
ii. complying with Australian Accounting Standards and the Corporations Regulations 2001.

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

Other Matter

A previous audit report with a disclaimer of audit opinion was issued on 30 August 2013 due to us being unable to obtain sufficient appropriate audit evidence on material movements on inventory. Subsequent to issuing the audit report, management were able to provide us with additional supporting evidence that enabled us to reissue an unqualified audit opinion.

Emphasis of matter

Uncertainty in relation to going concern

We draw attention to Note 27, in the financial report, which indicates that the consolidated entity incurred a net loss of $2,060,431 during the year ended 30 June 2013, had accumulated losses totalling $32,686,216, a net current liability position of $841,173 and net cash used in operating activities of $1,178,711at 30 June 2013. 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 6 to 8 of the directors' report for the year ended 30 June 2013. 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.

Opinion

In our opinion, the Remuneration Report of Phoslock Water Solutions Limited for the year ended 30 June 2013, complies with section 300A of the Corporations Act 2001.

Crowe Horwath Brisbane

Crowe Horwath Brisbane

Ian Brooks.

Ian Brooks
Partner
Signed at Brisbane, 23 September 2013

Shareholder Information

The shareholder information set out below was applicable as at 27 September, 2013.

A. Distribution of equity securities

Analysis of number of equity holders by size of holding:

Spread of Holding	Number of Holders	Number of Shares	% of Total Issued Capital
1 to 1,000	70	23,506	0.01%
1,001 to 5,000	159	539,417	0.23%
5,001 to 10,000	206	1,843,509	0.77%
10,001 to 100,000	517	21,457,408	8.96%
100,001 to 100,000,00	256	215,702,892	90.04%
Total	**1,208**	**239,566,732**	**100.00%**

The number of shareholders holding less than a marketable parcel ($500) of shares is 435 (10,000 shares)

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

C. Equity Security Holders

The names of the twenty largest quoted equity security holders are listed below.

Shareholder	Number of Shares	% of Total Issued Capital
Link Traders (Aust) Pty Ltd	41,271,726	17.23%
Evan Clucas & Leanne Weston	13,885,718	5.80%
Newvest Pty Ltd	10,990,224	4.59%
Ludgate Environmental Fund Ltd	9,995,000	4.17%
UBS Wealth Management	8,168,555	3.41%
Sail Ahead Pty Ltd	7,806,662	3.26%
Quizete Pty Ltd	6,000,000	2.50%
David Colbran	4,944,087	2.06%
Graham Gibson	4,117,774	1.72%
Paul & Lorraine Cazyer	3,891,002	1.62%
Nigel Traill	3,555,074	1.48%
LesWeeks Pty Ltd	3,026,674	1.26%
Colowell Pty Ltd	2,843,933	1.19%
Tenrub Pty Ltd	2,293,736	0.96%
Dr David Garman	2,027,273	0.85%
Judith Lipscombe	2,071,908	0.86%
David & Debra Newton	2,022,200	0.84%
Dr Ed Shann	1,850,000	0.77%
Agio Capital Corporation Ltd	1,834,742	0.77%
Fraser Enterprises Pty Ltd	1,766,333	0.74%
Total	**134,362,621**	**56.09%**
Total Shares Issued	**239,566,732**	**100.00%**

D. Substantial shareholders

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

Shareholder	Number of Shares	% of Total Issued Capital
Link Traders (Aust) Pty Ltd	41,271,726	17.23%
Evan Clucas & Leanne Weston	13,885,718	5.80%
Total	**55,157,444**	**23.02%**

E. Unquoted securities

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

	Number of Options	Number of Option Holders
Total number of unquoted options outstanding as at 27 September, 2013	21,100,000	7
There is one significant (>20%) holder of unquoted security		
Option holder		
Robert Schuitema	15,000,000	

	Number of Convertible Notes	Number of Note Holders
Total number of unquoted convertible notes outstanding as at 27 September, 2013	1,300	1
Each convertible note has a face value of $10,000 per note		
There is one significant (>20%) holder of unquoted security		
Converting note holder		
Link Traders (Aust) Pty Ltd	1,300	

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