

PHOSLOCK WATER SOLUTIONS LTD
(ABN 88 099 555 290)
APPENDIX 4E
PRELIMINARY FINAL REPORT
YEAR ENDED 30 JUNE 2009

Previous Corresponding Reporting Period: 30 June 2008

Results for announcement to the market:

				<u>\$A'000</u>
Revenues from ordinary activities	up	29%	to	1,085
Profit (loss) from ordinary activities after tax attributable to members	down	23%	to	(2,616)
Net profit (loss) for the period attributable to members	down	23%	to	(2,616)

The company does not propose to pay any dividends for the year ended 30 June 2009.

Annual Meeting

The annual meeting will be held as follows:

Place: Sheraton on the Park Hotel, Sydney

Date: 26 November 2009

Time: 10 am

Approximate date the annual report will be available: 24 October 2009

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**PHOSLOCK WATER SOLUTIONS LIMITED
AND CONTROLLED ENTITIES**

ABN: 88 099 555 290

**Annual Financial Report For The Year Ended
30 June 2009**

**PHOSLOCK WATER SOLUTIONS LIMITED
AND CONTROLLED ENTITIES**

30 June 2009

ABN: 88 099 555 290

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PHOSLOCK WATER SOLUTIONS LTD AND CONTROLLED ENTITIES
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DIRECTORS' REPORT

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

Directors

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

Dr David Garman
Mr Robert Schuitema
Mr Russell Brown (resigned 26 November 2008)
The Hon. Pam Allan

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

Company Secretary

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

Principal Activities

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

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

Operating Results

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

Dividends Paid or Recommended

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

Review of Operations

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

Operating expenses (including depreciation and amortization) for the year decreased by approx \$400,000. This was mainly attributable to lower employee, premises and administration costs. This resulted in a full year operating loss of \$2,616,305 a 23% improvement of the previous year's loss of \$3,402,156. The loss for the second half of FY2008-09 of \$1,073,757 (which included a number of one off asset write downs for the carrying value of goodwill, investment in associate and non-Phoslock inventories totaling approx \$300,000) was a significant improvement on the loss for the first six months of FY2008-09 of \$1,537,548.

Although the Company remains in loss the company believes that the outlook for the business remains very positive. During FY2008-09 the Company focused on its key markets of Australia, Europe and UK, North America, China and other parts of Asia. The level of business activity was significant higher than previous years in 15 commercial applications completed. A number of applications were completed during the year along with a number of trials with major industry customers. The results of these trial applications and

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customers committing to use Phoslock on their water bodies and in their watershed areas could see a significant acceleration in the use of Phoslock and associated sales revenue.

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

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

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

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

Financial Position

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

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

Future Developments, Prospects and Business Strategies

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

(i) Conversion of the current sales pipeline, particularly in Europe and the UK, Canada and Australia into near term sales. Phoslock continues to gain industry acceptance in these markets with post application results to date confirming the efficacy of the technology.

(ii) Rapid expansion in the potentially large Canadian market in both lake management and storm water catchment sectors. Work to date has confirmed the significant potential for the Phoslock technology in these business sectors. PWS are currently evaluating strategies to best capitalise on this opportunity. A crucial milestone will be the environmental approval for use in Ontario.

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(iii) Completion of a major Australian drinking water project. Success in this treatment is anticipated to be the catalyst for establishing Phoslock as the preferred nutrient management tool for major Australian water authorities and other countries. A critical milestone will be use by a major urban water manager on a large reservoir.

(iv) Development of our Asia business particularly in China and Singapore. A crucial milestone will be the use for urban waterbody eutrophication control.

(v) When demand justifies additional production capacity, PWS proposes to construct a second Phoslock production facility, most likely in China. A second plant, in addition to providing the capacity to meet the expected demand growth, will mitigate the risks associated with a single production source.

(vi) Evaluation and development of other water treatment products and cleantech technologies via licencing arrangements or acquisition to add to PWS's existing product range.

Going Concern

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

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

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

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

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

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

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

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

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

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

Significant Changes in State of Affairs

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

After Balance Date Events

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

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

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

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

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

Environmental Issues

The consolidated entity's operations are subject to environmental regulation of the territories in which it operates. Details of the consolidated entity's performance in relation to environmental regulation are as follows:

The Company commits to comply with all regulations governing the use and application of its water technology products both in Australia and internationally. In Australia, PWS imports Phoslock from its joint venture in China. Phoslock was originally certified by NICNAS in June 2001. Under its registration PWS has an obligation to advise NICNAS of any material changes to the product, research or technical papers covering the product and material results for applications.

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

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Information on Directors

Dr David Garman - Chairman (Non-executive)
 Qualifications - Ph D (Syd), M. Sc (Syd), B.Sc (Sp Hons) London, MAICD
 Board member since 2001, Executive Director CRC for Waste Management Ltd and the
 Experience - Environmental Biotechnology CRC, President and Director International Water Association.
 Interest in Shares and Options - 800,000 Ordinary Shares in Phoslock Water Solutions Limited and options to acquire a further
 Special - 500,000 ordinary shares.
 Responsibilities - Dr Garman is a Member of the Audit Committee and Remuneration Committee.

Mr Robert Schuitema - Managing Director (Executive)
 Qualifications - BCA, INFINZ, CA
 Board member since April 2005, Former Managing Director of investment bank Chase
 Experience - Manhattan and later JP MorganChase responsible for the bank's mining, metals and project
 Interest in Shares and Options - finance business in Australia and the Asia Pacific region.
 Special - 3,476,888 Ordinary Shares in Phoslock Water Solutions Limited and options to acquire a
 Responsibilities - further 4,227,272 ordinary shares.
 - Mr Schuitema is a Member of the Audit Committee and Remuneration Committee.

The Hon. Pam Allan - Director (Non-executive)
 Board member since 2007, B Arts (Hons) Dip.Ed. University of Sydney, Fellow at the
 Qualifications - Graduate School of Environment, Macquarie University.
 Experience - 18 years membership of the NSW parliament including 5 years as Minister for the
 Interest in Shares and Options - Environment.
 Special - 500,000 options to acquire ordinary shares in Phoslock Water Solutions Ltd.
 Responsibilities - Ms Allan is a Member of the Audit Committee and Remuneration Committee.

Remuneration Report

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

Remuneration Policy

The remuneration policy of Phoslock Water Solutions Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the economic entity's financial results. The board of Phoslock Water Solutions Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the economic entity, as well as create goal congruence between directors, executives and shareholders.

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

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the remuneration committee. All executives receive a base salary (which is based on factors such as length of service and experience), superannuation and options. The remuneration committee reviews executive packages annually by reference to the consolidated entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries. Executives and directors do not receive any other retirement benefits.

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

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

Performance Based Remuneration

It is the intention of the remuneration committee to establish an incentive based component for executives based on performance measured against achievement of key performance indicators (KPIs). This program will facilitate goal congruence between directors/executives with that of the business and shareholders. KPIs will be set annually, with a certain level of consultation with directors/executives to ensure buy-in. The measures will be specifically tailored to the areas each director/executive is involved in and has a level of control over. The KPIs target areas the board believes hold greater potential for group expansion and profit, covering financial and non-financial as well as short and long term goals. The level set for each KPI will be based on forecast figures for the group and respective industry standards.

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

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Key Management Personnel Remuneration

2009	Short-term Employment Benefits		Post Employment Benefits	Share Based Payments	Total	Performance Related
	Salary, Fees and Commissions	Other	Superannuation	Shares & Options		
	\$	\$	\$	\$	\$	%
Directors						
Mr Robert Schuitema	235,000	39,402	23,500	-	297,902	-
The Hon. Pam Allan	45,000	-	4,050	-	49,050	-
Dr David Garman	75,000	-	7,500	-	82,500	-
Mr Russell Brown	16,666	-	1,500	-	18,166	-
	<u>371,666</u>	<u>39,402</u>	<u>36,550</u>	<u>-</u>	<u>447,618</u>	
Specified Executives						
Mr Colin Upcroft	91,705	6,875	7,093	-	105,673	-
Mr Nigel Traill	100,000	60,000	9,000	20,000	189,000	11
Mr Eddie Edmunds	182,000	20,000	32,000	-	234,000	-
Mr Andrew Winks	91,745	-	8,257	10,000	110,002	9
Dr Sarah Groves	110,000	15,000	9,900	10,000	144,900	7
	<u>575,450</u>	<u>101,875</u>	<u>66,250</u>	<u>40,000</u>	<u>783,575</u>	
Total	<u>947,116</u>	<u>141,277</u>	<u>102,800</u>	<u>40,000</u>	<u>1,231,193</u>	

2008	Short-term Employment Benefits		Post Employment Benefits	Share Based Payments	Total	Performance Related
	Salary, Fees and Commissions	Other	Superannuation Contribution	Options		
	\$	\$	\$	\$	\$	%
Directors						
Mr Robert Schuitema	250,000	30,000	25,000	-	305,000	-
The Hon. Pam Allan	43,125	-	3,881	8,026	55,032	-
Dr David Garman	75,000	-	7,500	-	82,500	-
Mr Russell Brown	45,000	-	-	-	45,000	-
	<u>413,125</u>	<u>30,000</u>	<u>36,381</u>	<u>8,026</u>	<u>487,532</u>	
Specified Executives						
Mr Colin Upcroft	148,418	15,000	16,500	16,052	195,970	8.2
Mr Nigel Traill	100,000	60,000	9,000	16,052	185,052	8.7
Mr Eddie Edmunds	188,000	20,000	32,000	-	240,000	-
Mr Andrew Winks	91,745	-	8,257	4,816	104,818	4.6
Dr Sarah Groves	90,833	15,000	8,287	4,816	118,936	4.1
	<u>618,996</u>	<u>110,000</u>	<u>74,044</u>	<u>41,736</u>	<u>844,776</u>	
Total	<u>1,032,121</u>	<u>140,000</u>	<u>110,425</u>	<u>49,762</u>	<u>1,332,308</u>	

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Remuneration

Executive directors and executives were not paid performance based bonuses during the year. No executive director received any share or option based remuneration during the year. Three executives received a total of 400,000 shares (total cost to the Company of \$40,000) as part of their remuneration package during the year. The remuneration committee will consider future bonuses to encourage achievement of specific goals that have been given a high level of importance in relation to the future growth and profitability of the economic entity. The remuneration committee will review performance bonuses to gauge their effectiveness against achievement of the set goals, and adjust future years' incentives as they see fit, to ensure use of the most cost effective and efficient methods.

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

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

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

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

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

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

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

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

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

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

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

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

The weighted average fair value of the options granted during the year was \$0.01
This price was calculated by using a Black Scholes option pricing model applying the following inputs:

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

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

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

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

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

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

	Options granted as part of remuneration	Total remuneration represented by options	Options exercised	Options lapsed	Total
	\$	%			
Dr David Garman	-	-	-	(1,000,000)	(1,000,000)
The Hon. Pam Allan	-	-	-	-	-
Mr Robert Schuitema	-	-	-	(3,000,000)	(3,000,000)
Mr Colin Upcroft	-	-	-	(1,500,000)	(1,500,000)
Mr Nigel Traill	-	-	-	(1,000,000)	(1,000,000)
Mr Eddie Edmunds	-	-	-	(1,350,000)	(1,350,000)
Mr Andrew Winks	-	-	-	(1,000,000)	(1,000,000)
Dr Sarah Groves	-	-	-	(650,000)	(650,000)

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

Employment Contracts of Directors and Senior Executives

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

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

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Meetings of Directors

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

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

Indemnifying Officers or Auditor

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

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

Options

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

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

These options do not entitle the holder to participate in any share issue of the Company, nor do they carry any voting rights or rights to dividends. Further details regarding these options can be found at Note 5. Details of options outstanding at 30 June 2009 including options issued, exercised and forfeited are detailed at Note 26.

PHOSLOCK WATER SOLUTIONS LTD AND CONTROLLED ENTITIES
ABN 88 099 555 290
DIRECTORS' REPORT

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.

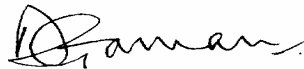
Auditor's Independence Declaration

The lead auditor's independence declaration in accordance with Section 307C of the Corporations Act 2001, for the year ended 30th June 2009 has been received and can be found on page 16 of the directors' report.

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



Mr Robert Schuitema - Managing Director
Dated this 31st day of August 2009



Dr David Garman - Chairman of Directors
Dated this 31st day of August 2009

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

To the Directors of Phoslock Water Solutions Limited

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

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

Signed at Brisbane 31 August 2009.



WHK HORWATH



VANESSA M DE WAAL
Principal

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

**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES
INCOME STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009**

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

The accompanying notes form part of these financial statements.

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**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES
BALANCE SHEETS AS AT 30 JUNE 2009**

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

The accompanying notes form part of these financial statements.

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**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES
STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2009**

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

The accompanying notes form part of these financial statements.

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**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES
STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2009**

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

The accompanying notes form part of these financial statements.

PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES
CASH FLOW STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

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

The accompanying notes form part of these financial statements.

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**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009**

Note 1 Statement of Significant Accounting Policies

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

Basis of Preparation

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

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

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

(a) Principles of Consolidation

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

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

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

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

(b) Income Tax

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

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

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

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

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

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

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

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

**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009**

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 realization and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Tax Consolidation

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

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

(c) Inventories

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

(d) Property, Plant and Equipment

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

Plant and equipment

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

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

Depreciation

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

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

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

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

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

(e) Leases

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

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

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

**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009**

(f) Financial Instruments

Recognition and Initial Measurement

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

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

Derecognition

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

Classification and Subsequent Measurement

(i) Financial assets at fair value through profit or loss

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

(ii) Loans and receivables

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

(iii) Held-to-maturity investments

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

(iv) Available-for-sale financial assets

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

(v) Financial Liabilities

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

Fair value

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

Impairment

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

(g) Impairment of Assets

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

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

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

(h) Investments in Associates

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

**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009**

(i) Intangibles

Goodwill

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

Phoslock Licence Patents and Trademarks

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

Research and Development

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

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

(j) Foreign Currency Transactions and Balances

Functional and presentation currency

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

Transaction and balances

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

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

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

Group Companies

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

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

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

(k) Employee Benefits

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

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

Equity-settled compensation

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

**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009**

(l) Provisions

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

(m) Cash and Cash Equivalents

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

(n) Revenue and Other Income

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

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

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

(o) Government Grants

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

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

(p) Borrowing Costs

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

(q) Goods and Services Tax (GST)

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

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

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

(r) Comparative Figures

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

(s) Critical Accounting Estimates and Judgments

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

Key Estimates — Impairment

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

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

PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 2 Revenue

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

Note 3 Loss for the Year

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

**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009**

Note 4 Income Tax Expense

Note	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
(a) Income tax expense				
- Current year	-	28,018	-	28,018
- Deferred tax	-	-	-	-
	-	28,018	-	28,018

(b) Numerical reconciliation of income tax expense payable

Income tax is reconciled to the income tax expense as follows:

Loss for the year before income tax	(2,749,715)	(3,465,546)	(19,942,514)	(153,922)
Prima facie tax payable on loss from ordinary activities before income tax at 30% (2008 30%)				
- consolidated group	(824,915)	(1,039,664)		
- parent entity			(5,982,754)	(46,177)
Add:				
Tax effect of:				
- non-deductible depreciation and amortisation	101,056	95,062	-	33,030
- other non-allowable items	155,778	1,209	5,946,731	-
- share options expensed during year	8,532	19,406	-	-
- Deferred Tax Asset not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(b) occur	582,324	916,746	36,023	13,147
	22,775	(7,241)	-	-
Less:				
Tax effect of:				
- share of net profits of associates netted directly	-	(7,241)	-	-
- other tax concessions & deductible amounts	22,775	28,018		28,018
Income tax attributable to entity	-	(28,018)	-	(28,018)

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**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009**

(c) Unrecognised deferred tax assets	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
Tax losses	19,744,920	17,805,240	647,520	527,443
Potential tax benefit	5,932,476	5,341,572	194,256	158,233
Temporary differences				
Accruals and provisions	182,562	211,163	-	-
Potential tax benefit	54,769	63,349	-	-
Total deferred tax assets not brought to account	5,987,245	5,404,921	194,256	158,233

Note 5 Key Management Personnel Compensation

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

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

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

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

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

**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009**

(b) Options and Rights Holdings

Number of Options Held by Key Management Personnel

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

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

(c) Shareholdings

Number of Shares hold by Key Management Personnel

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

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

Note 6 Auditors' Remuneration

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

**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009**

Note 7 Earnings per Share

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

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

PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 8 Cash and Cash Equivalents

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
Cash at bank and in hand		327,148	279,360	3,087	3,165
Short-term bank deposits		200,000	70,566	-	-
		<u>527,148</u>	<u>349,926</u>	<u>3,087</u>	<u>3,165</u>

The effective interest rate on short-term bank deposits was 3.00% (2008 5.5%); these deposits have an average maturity of 120 days.

Reconciliation of cash

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

Cash and cash equivalents		527,148	349,926	3,087	3,165
Bank overdrafts	19	-	(316)	-	-
		<u>527,148</u>	<u>349,610</u>	<u>3,087</u>	<u>3,165</u>

Note 9 Trade and Other Receivables

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

(a) Provision For Impairment of Receivables

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

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

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

	Opening Balance 1.07.2008	Charge for the Year	Amounts Written Back	Closing Balance 30.06.2009
	\$	\$	\$	\$
Consolidated Group				
Current trade receivables	-	-	-	-
Non-current trade receivables	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 10 Inventories

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

Note 11 Investments Accounted for Using the Equity Method

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

Note 12 Associated Companies

Interests are held in the following associated companies

Name	Principal Activities	Country of Incorporation	Shares	Ownership Interest		Carrying Amount of Investments	
				2009	2008	2009	2008
				%	%	\$	\$
Unlisted:							
Phoslock Africa Pty Ltd	Phoslock sales	South Africa	Ord	50	50	-	30,806
						<u>-</u>	<u>30,806</u>

PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

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

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

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

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

(c) Summarised Presentation of Aggregate Assets, Liabilities and

Performance of Associates

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

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

Note 13 Financial Assets

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
NON CURRENT					
Available-for-sale financial assets	13a	-	-	4,661,035	4,668,029
		-	-	4,661,035	4,668,029

(a) Available-for-sale financial assets comprise:

NON CURRENT

Unlisted investments, at cost

- shares in controlled entities

		-	-	4,661,035	4,668,029
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Total non-current available-for-sale financial assets

		-	-	4,661,035	4,668,029
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Available-for-sale financial assets comprise investments in the ordinary issued capital of various entities. There are no fixed returns or fixed maturity date attached to these investments.

**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009**

Note 14 Controlled Entities

(a) Controlled Entities Consolidated

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

*Percentage of voting power is in proportion to ownership

Note 15 Plant and Equipment

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

(a) Movements in Carrying Amounts

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

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

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

PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 16 Intangible Assets

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Goodwill				
Cost	401,977	401,977	-	-
Accumulated impaired losses	(401,977)	(342,584)	-	-
Net carrying value	-	59,393	-	-
Trademarks and licences				
Cost	4,153,188	4,105,211	-	1,266,214
Accumulated amortisation and impairment	(1,439,244)	(1,110,709)	-	(272,958)
Intercompany transfers	-	-	-	(993,256)
Exchange differences	-	(14,542)	-	-
Net carrying value	2,713,944	2,979,960	-	-
Development costs				
Cost	323,740	323,740	-	-
Accumulated amortisation and impairment	(258,942)	(253,991)	-	-
Net carrying value	64,798	69,749	-	-
Total intangibles	2,778,742	3,109,102	-	-
	Goodwill	Trademarks & Licences	Development Costs	Total
	\$	\$	\$	\$
Consolidated Group:				
Year ended 30 June 2008				
Balance at the beginning of year	59,393	3,274,336	77,609	3,411,338
Additions	-	45,193	-	45,193
Amortisation charge	-	(337,647)	(7,860)	(345,507)
Exchange differences	-	(1,922)	-	(1,922)
Balance as at 30 June 2008	59,393	2,979,960	69,749	3,109,102
Year ended 30 June 2009				
Balance at the beginning of year	59,393	2,979,960	69,749	3,109,102
Additions	-	47,975	-	47,975
Amortisation charge	-	(336,852)	(4,951)	(341,803)
Impairment	(59,393)	-	-	(59,393)
Exchange differences	-	22,861	-	22,861
Balance as at 30 June 2009	-	2,713,944	64,798	2,778,742

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

Impairment Disclosures

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

Management has based the value-in-use calculations on expected volume forecasts for the life of the Phoslock licence.

Existing cost and pricing structures have been applied to the volume forecasts. Volumes have been determined with reference to forecasts for each market and geographic segment of the business with due regard for existing and planned production capacity. Discount rates are pre-tax and are adjusted to incorporate risks associated with a particular segment.

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PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 17 Other Assets

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

Note 18 Trade and Other Payables

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

Note 19 Financial Liabilities

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

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**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES
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(a) Converting Notes

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

Note 20 Provisions

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

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.

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Note 21 Issued Capital

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

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

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholder meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

(b) Options

- (i) For information relating to Phoslock Water Solutions Limited employee options, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end. Refer to Note 26: Share-based Payments.
- (ii) For information relating to share options issued to key management personnel during the financial year. Refer to Note 26: Share-based Payments.

(c) Capital Management

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

The group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. There are no externally imposed capital requirements.

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

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

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

Note 22 Reserves

a) Foreign Currency Translation Reserve

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

(b) Option Reserve

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

Note 23 Capital and Leasing Commitments

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

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

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
(b) Operating Lease Commitments				
Non-cancelable operating leases contracted for but not capitalised in the financial statements				
Payable - minimum lease payments				
- not later than 12 months	175,153	164,379	-	-
- between 12 months and 5 years	143,261	291,412	-	-
- greater than 5 years	40,584	14,167	-	-
	<u>358,998</u>	<u>469,958</u>	<u>-</u>	<u>-</u>

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

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

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Note 24 Segment Reporting

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

Secondary Reporting – Geographical Segments

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

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Accounting Policies

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

Intersegment Transfers

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

Business and Geographical Segments

Business segments

The consolidated group has the following business segments:

— The Environmental Technology segment is responsible for the development, manufacture and distribution of environmental technology products. The main product is Phoslock, a modified clay developed by Australia's Commonwealth Scientific and Industrial Research Organisation.

— The mining segment divested its interest in bentonite mining tenements in 2006 but continues to receive deferred payment royalties paid quarterly based on tons sold from the resource until June 2011.

Geographical segments

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

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Note 25 Cash Flow Information

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

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Note 26 Share-based Payments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Note 27 Events After the Balance Sheet Date

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

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

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

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

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

Note 28 Related Party Transactions

Consolidated Group		Parent Entity	
2009	2008	2009	2008
\$	\$	\$	\$

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) Associated Companies

Sale of Phoslock granules by Phoslock Pty Ltd to Phoslock Africa Pty Ltd	-	16,643	-	-
Loans with wholly owned subsidiaries	-	-	-	17,929,885
Loans with wholly owned subsidiaries impaired	-	-	19,758,436	-

(b) Ultimate Parent

Phoslock Water Solutions Ltd is the ultimate parent company

Note 29 Financial Risk Management

(a) Financial Risk Management Policies

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

(i) Financial Risk Exposures and Management

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

Interest rate risk

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

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Foreign currency risk

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

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

Liquidity risk

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

Credit risk

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

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

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

The parent entity has no significant exposure to credit risk.

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

(b) Financial Instruments

(i) Financial Instrument Composition and Maturity Analysis

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

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

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

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

	Fixed Interest Rate Over 5 Years		Non-interest Bearing		Total	
	2009	2008	2009	2008	2009	2008
	\$	\$	\$	\$	\$	\$
Financial Liabilities:						
Bank overdrafts	-	-	-	-	-	316
Converting Notes*	-	-	-	-	1,043,726	1,180,000
Trade and sundry payables	-	-	349,348	454,976	349,348	454,976
Lease liability	-	-	-	-	24,475	30,773
Shareholder's loan	-	-	77,679	-	77,679	-
Total Financial Liabilities	-	-	427,027	454,976	1,495,228	1,666,065

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

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Fixed Interest Rate Maturing

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

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

Fixed Interest Rate Maturing

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

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

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

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Less than 6 months	349,348	454,976		
6 months to 1 year	-	-	-	-
1-5 years	-	-	-	-
Over 5 years	-	-	-	-
	349,348	454,976		

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

**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009**

(ii) Net Fair Values

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

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

(iii) Sensitivity analysis

Interest Rate Risk and Foreign Currency Risk

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

Interest Rate Sensitivity Analysis

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

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

Foreign Currency Risk and Sensitivity Analysis

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

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Change in profit				
- Improvement in AUD to USD by 10%	(337)	40,855	-	-
- Decline in AUD to USD by 10%	410	(52,528)	-	-
Change in equity				
- Improvement in AUD to USD by 10%	(337)	40,855	-	-
- Decline in AUD to USD by 10%	410	(52,528)	-	-

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

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Change in profit				
- Improvement in AUD to Euro by 10%	(38,586)	(34,234)	-	-
- Decline in AUD to Euro by 10%	47,996	41,703	-	-
Change in equity				
- Improvement in AUD to Euro by 10%	(38,586)	(34,234)	-	-
- Decline in AUD to Euro by 10%	47,996	41,703	-	-

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

**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009**

Note 30 Changes in Accounting Policies

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

- (i) AASB 8: Operating Segments and AASB 2007-3: Amendments to Australian Accounting Standards arising from AASB 8 (applicable for annual reporting periods commencing from 1 January 2009). AASB 8 introduces a new "management approach" to segment reporting. The changes require identification of operating segments on the basis of internal management reports that are regularly reviewed by the Group's key decision makers for the purposes of assessing performance and the allocation of resources to each segment. While the impact of this standard has not been assessed at this stage, there is the potential for more segments to be identified. Given the lower economic levels at which segments may be defined, and the fact that cash generating units cannot be bigger than operating segments, the allocation of goodwill to reportable segments and impairment calculations may be affected by the change in approach. Management does not presently believe that this will result in any additional impairment of goodwill.

- (ii) Revised AASB 123: Borrowing Costs and AASB 2007-6: Amendments to Australian Accounting Standards arising from AASB 123 (applicable for annual reporting periods commencing from 1 January 2009). The revised AASB123 Borrowing costs removes the option to expense borrowing costs related to qualifying assets. The standard now requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised standard is not expected to have any impact on the group's financial report.

- (iii) Revised AASB 101: Presentation of Financial Statements, AASB 2007-8: Amendments to Australian Accounting Standards arising from AASB 101, and AASB 2007-10: Further Amendments to Australian Accounting Standards arising from AASB 101 (all applicable to annual reporting periods commencing from 1 January 2009). The revised AASB 101 and amendments supersede the previous AASB 101 and:
 - redefines the composition of financial statements by requiring the details of all non-owner changes in equity to be presented in a statement of comprehensive income with corresponding changes to the statement of changes in equity. The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by AASBs. The Total Comprehensive Income may be presented as a single statement of income or in an Income Statement and separate Statement of Comprehensive Income.
 - requires disclosure of income tax relating to each component of other comprehensive income
 - requires inclusion of an additional statement of financial position (balance sheet) when an entity applies an accounting standard retrospectively, makes a retrospective restatement, or reclassifies items in its financial statements.
 - requires disclosure of reclassification adjustments relating to components of other comprehensive income
 - requires dividends to owners and related amounts per share to be presented in the Statement of Changes in Equity or the Notes to the financial statements, and not in the Statement of Comprehensive Income.

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

- (iv) AASB 2008-1: Amendments to Australian Accounting Standard — Share-based Payments: Vesting Conditions and Cancellations [AASB 2] (applicable for annual reporting periods commencing from 1 January 2009). This amendment to AASB 2:
 - clarifies the definition of vesting conditions, and the concept of non-vesting conditions taken to account in determining the fair value at grant date;

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- clarifies that vesting conditions are those conditions that determine whether an entity receives the services that result in the counterparty's entitlement
- restricts the definition of vesting conditions to include service conditions and performance conditions only.
- amends the definition of performance conditions to require the completion of a service period in addition to specified performance targets.
- specifies that cancellations should receive the same accounting treatment whether cancelled by the entity or by another party.

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

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

The revised AASB 127 requires that:

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

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

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

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

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

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- all dividends received from investments in subsidiaries, jointly controlled entities or associates will be recognised as revenue including dividends declared out of pre-acquisition profits i.e. these dividends will no longer be deducted from the cost of the investment. As a result, investments in subsidiaries, jointly controlled entities and associates may need to be tested for impairment when a dividend is paid.
 - where there is, in substance, no change to Group interests, parent entities inserted above existing Groups shall measure its investments at the carrying amount of the net assets of the subsidiary rather than the subsidiary's fair value at the date of reorganisation.
- (viii) AASB Interpretation 16: Hedges of a Net Investment in a Foreign Operation (applicable for annual reporting periods commencing from 1 October 2008). The Interpretation applies to entities that hedge foreign currency risk arising from net investments in foreign operations and that want to adopt hedge accounting. Interpretation 16 clarifies which foreign currency risks qualify as hedged risk with respect to the hedge of a net investment in a foreign operation and that hedging instruments may be held by any entity or entities within the group. It also provides guidance on how an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item. The interpretation is not expected to impact the Group.
- (ix) AASB 2008-8: Amendment to IAS 39 Financial Instruments: Recognition and Measurement (applicable for annual reporting periods commencing from 1 July 2009). AASB 2008-8 amends AASB 139 Financial Instruments: Recognition and Measurement and must be applied retrospectively in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. This amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of fixed rate debt and prohibits including time value in the one-sided hedged risk when designating options as hedges. The amendments are not expected to materially affect the Group.
- (x) AASB Interpretation 17: Distributions of Non-cash Assets to Owners and AASB 2008-13 Amendments to Australian Accounting Standards arising from AASB Interpretation 17 (applicable for annual reporting periods commencing from 1 July 2009). This interpretation applies to situations where an entity pays dividends by distributing non-cash assets to its shareholders. The interpretation which applies prospectively, clarifies that non-cash dividends paid or payable should be measured at the fair value of the net assets distributed or to be distributed. Any difference between the fair value and carrying value of the assets is recognised in profit or loss on distribution. The interpretation also clarifies when a liability for a dividend must be recognised and measured at fair value. The Group will apply the interpretation prospectively from 1 July 2009. The group has not yet determined the potential effect of the interpretation.

Note 31 Going Concern

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

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

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

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

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

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

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

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

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

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

Note 32 Company Details

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

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

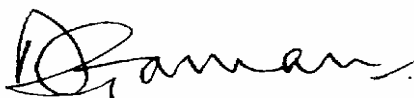
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**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290
AND CONTROLLED ENTITIES
DIRECTORS' DECLARATION**

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 17 to 54, are in accordance with the Corporations Act 2001 and:
 - a. comply with Accounting Standards and the Corporations Regulations 2001; and
 - b. give a true and fair view of the financial position as at 30 June 2009 and of the performance for the year ended on that date of the company and consolidated group;
2. the Chief Executive Officer and Chief Finance Officer have declared that:
 - a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - b. the financial statements and notes for the financial year comply with the Accounting Standards; and
 - c. the financial statements and notes for the financial year give a true and fair view;
3. in the director's opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



Director _____

Dr David Garman

Declared this 31st day of August 2009



Director _____

Mr Robert Schuitema

Declared this 31st day of August 2009

INDEPENDENT AUDITOR'S REPORT

To the members of Phoslock Water Solutions Limited

Report on the Financial Report

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

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial re

port in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

Auditor's Opinion

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

- (a) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

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

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 8-14 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

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



WHK HORWATH



VANESSA DE WAAL
Principal

Brisbane, 31 August 2009

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