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# Notice of General Meeting and Explanatory Memorandum

## Phoslock Water Solutions Limited ACN 099 555 290

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Date: Monday, 20<sup>th</sup> June, 2016

Time: 9:30 am

Venue: Phoslock Water Solutions Limited

Suite 403, 25 Lime Street

Sydney, NSW

<b>In this document you will find:</b>	<b>Page No</b>
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A Proxy Form	Enclosed

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**Phoslock Water Solutions Limited**  
**ACN 099 555 290**

Dear Shareholder,

I am pleased to invite you to attend a General Meeting of Phoslock Water Solutions Limited (**Phoslock or Company**) to be held at 9.30 am on Monday, 20<sup>th</sup> June, 2016. The General Meeting will be held at the offices of the Company at Suite 403, 25 Lime Street, Sydney, NSW.

I enclose your Notice of Meeting, Explanatory Memorandum and Proxy Form.

The Notice of Meeting (including the Explanatory Memorandum) sets out the items of business for the General Meeting. Please take the time to carefully read the whole document.

To help you understand what the Notice of Meeting contains, below is a brief outline of the items of business that are proposed for the General Meeting:

1. Ratification of prior issue of 20,000,000 Shares.
2. Approval of issue of 18,874,286 Shares.
3. Approval of issue of Options to Mr Robert Schuitema.
4. Approval of issue of Options to other employees and consultants.
5. Approval of issue of Options to Related Party consultant.

If you would like to vote on the items of business outlined in the Notice of Meeting, you may attend the General Meeting in person or appoint a proxy to vote on your behalf at the General Meeting. If appointing a proxy, the enclosed Proxy Form should be completed and returned to the Company (see Proxy Form for details) as soon as possible and, in any event, by no later than 9.30 am on Sunday, 19<sup>th</sup> June, 2016. We encourage you to direct your proxy how to vote on each item of business.

If you have any queries in relation to the General Meeting, please contact me on (02) 8014 7611.

Yours sincerely,



**Laurence Freedman AM**  
**Chairman**  
**Sydney, Australia**  
**13 May, 2016**

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# Notice of General Meeting

**NOTICE IS GIVEN** that a General Meeting of Phoslock Water Solutions Limited ACN 099 555 290 (**Phoslock** or **Company**) will be held at 9.30 am on Monday, 20<sup>th</sup> June, 2016 at the offices of the Company at Suite 403, 25 Lime Street, Sydney, NSW.

The Explanatory Memorandum accompanying this Notice of Meeting is incorporated in, and forms part of, this Notice of Meeting. The Explanatory Memorandum has been prepared to provide Shareholders with an explanation of the items of business and the Resolutions to be proposed and considered at the Meeting.

All documents should be read in their entirety. If you are in any doubt about what to do, you should consult your legal, financial or other professional adviser.

## Agenda

### Item 1: Ratification of prior issue of 20,000,000 Shares (Resolution 1)

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, Shareholders approve and ratify the prior issue of 20,000,000 Shares on the terms and conditions and in the manner detailed in the Explanatory Memorandum accompanying this Notice of Meeting.”*

#### Voting Exclusion Statement

In accordance with the ASX Listing Rules, the Company will disregard any votes cast on Resolution 1 *by any person who participated in the issue and any of their associates*.

However, the Company need not disregard a vote on Resolution 1 if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

### Item 2: Approval of issue of 18,874,286 Shares (Resolution 2)

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, for the purposes of ASX Listing Rule 7.1 and for all other purposes, Shareholders approve the issue of up to 18,874,286 Shares on the terms and conditions and in the manner detailed in the Explanatory Memorandum accompanying this Notice of Meeting.”*

#### Voting Exclusion Statement

In accordance with the ASX Listing Rules, the Company will disregard any votes cast on Resolution 2 *by any person who may participate in the proposed issue or who might obtain a benefit (except a benefit solely in the capacity as a holder of ordinary securities, if Resolution 2 is passed) and any of their associates*.

However, the Company need not disregard a vote on Resolution 2 if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

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### Item 3: Approval of issue of Options to Mr Robert Schuitema (Resolution 3)

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, for the purposes of ASX Listing Rule 10.11 and for all other purposes, Shareholders approve the issue of up to 2,000,000 Options on the terms and conditions and in the manner detailed in the Explanatory Memorandum accompanying this Notice of Meeting.”*

#### Voting Exclusion Statement

In accordance with the ASX Listing Rules, the Company will disregard any votes cast on Resolution 3 by Mr Robert Schuitema and any of his associates.

However, the Company need not disregard a vote on Resolution 3 if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

*In addition, in accordance with the Corporations Act, a vote must not be cast on Resolution 3 by a Key Management Personnel or a Closely Related Party of such a Key Management Personnel, acting as proxy, if their appointment does not specify the way the proxy is to vote on Resolution 3. However, this voting exclusion under the Corporations Act does not apply if the Chair of the Meeting is acting as proxy for a person who is entitled to vote and their appointment expressly authorises the Chair of the Meeting to exercise the proxy even if that Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel.*

### Item 4: Approval of issue of Options to employees and consultants (Resolution 4)

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, for the purposes of ASX Listing Rule 7.1 and for all other purposes, Shareholders approve the issue of up to 10,600,000 Options on the terms and conditions and in the manner detailed in the Explanatory Memorandum accompanying this Notice of Meeting.”*

#### Voting Exclusion Statement

In accordance with the ASX Listing Rules, the Company will disregard any votes cast on Resolution 4 by any person who may participate in the proposed issue or who might obtain a benefit (except a benefit solely in the capacity as a holder of ordinary securities, if Resolution 4 is passed) and any of their associates.

However, the Company need not disregard a vote on Resolution 4 if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

*In addition, in accordance with the Corporations Act, a vote must not be cast on Resolution 4 by a Key Management Personnel or a Closely Related Party of such a Key Management Personnel, acting as proxy, if their appointment does not specify the way the proxy is to vote on Resolution 4. However, this voting exclusion under the Corporations Act does not apply if the Chair of the Meeting is acting as proxy for a person who is entitled to vote and their appointment expressly authorises the Chair of the Meeting to exercise the proxy even if that Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel.*

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**Item 5: Approval of issue of Options to Related Party consultant (Resolution 5)**

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, for the purposes of ASX Listing Rule 10.11 and for all other purposes, Shareholders approve the issue of up to 1,000,000 Options on the terms and conditions and in the manner detailed in the Explanatory Memorandum accompanying this Notice of Meeting.”*

**Voting Exclusion Statement**

In accordance with the ASX Listing Rules, the Company will disregard any votes cast on Resolution 5 by *Serenety Holdings Pty Ltd ACN 088 918 807 and any of its associates*.

However, the Company need not disregard a vote on Resolution 5 if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

**By Order of the Board**



**Robert Schuitema**  
**Company Secretary**  
**Sydney, Australia**  
**13 May, 2016**

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## Voting and Proxies

### 1. Determination of Shareholding and Voting Entitlement

In accordance with regulation 7.11.37 of the *Corporations Regulations 2001* (Cth), your Directors have determined that the Shares will be taken, for the purpose of determining those persons entitled to attend and vote at the General Meeting, to be held by the persons who are registered as holding them as at 7.00 pm on Saturday, 18<sup>th</sup> June, 2016.

Accordingly, transactions registered after that time will be disregarded when determining entitlements to attend and vote at the General Meeting.

### 2. Votes of Members

On a show of hands, each Shareholder present in person or by proxy or attorney or, in the case of a body corporate, by a representative at the General Meeting will have one vote. On a poll, every Shareholder present in person or by proxy or attorney or, in the case of a body corporate, by a representative will have one vote for each Share held by him or her.

### 3. Important Voting Information

The Company encourages all Shareholders who submit proxies to direct their proxy how to vote on the Resolutions.

The Chair of the General Meeting intends to vote all undirected proxies in favour of each Resolution to the extent permitted by law. However, the Chair of the Meeting is not permitted to vote an undirected proxy on Resolutions 3 and 4 unless the proxy expressly authorises the Chair to exercise the proxy in respect of each such Resolution even if it is connected directly or indirectly with the remuneration of a member of the Company's Key Management Personnel (**KMP**).

In respect of Resolutions 3 and 4, if you intend to appoint a member of the KMP (such as one of the Directors) or a Closely Related Party as your proxy, please ensure that you direct them how to vote on that Resolution. If you intend to appoint the Chair as your proxy for Resolutions 3 and 4, you can direct the Chair on how to vote by marking the appropriate box for that Resolution. Alternatively, in relation to the Chair, you can choose not to mark a box and give your express authority to exercise an undirected proxy, even if the Resolution concerned is connected directly or indirectly with the remuneration of a member of the KMP (in which case, as outlined above, the Chair will vote in favour of Resolutions 3 and 4 to the extent permitted by law).

If the Directors or another Key Management Personnel (other than the Chair) or a Closely Related Party is your proxy, and you fail to provide a voting direction in respect of Resolutions 3 and 4, your vote will not be cast in respect of each such Resolution.

### 3. Proxies

A Shareholder who is entitled to attend and vote at the General Meeting is entitled to appoint a proxy to attend and vote on behalf of the Shareholder. Where the Shareholder is entitled to cast 2 or more votes, the Shareholder may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise.

If the Shareholder appoints 2 proxies and the appointment does not specify the proportion or number of the Shareholder's votes each proxy may exercise, each proxy may exercise half of the votes (disregarding fractions).

A proxy need not be a Shareholder of the Company.

A Proxy Form accompanies this Notice of Meeting. The Proxy Form contains important information and other instructions which you should read carefully.

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Any instrument of proxy deposited or received by the Company in which the name of the appointee is not filled in will be deemed to be given in favour of the Chair of the Meeting to which it relates.

Proxies given by corporate Shareholders must be executed in accordance with their constitutions or signed by a duly authorised officer or attorney.

A proxy may decide whether to vote on any motion, except where the proxy is required by law or the constitution of the Company to vote, or abstain from voting, in their capacity as proxy. If a proxy is directed on how to vote on an item of business, the proxy may vote on that item only in accordance with the direction. If a proxy is not directed on how to vote on an item of business, the proxy may vote as he or she thinks fit (subject to the exceptions set out above under “**Important Voting Information**” above).

To be effective, the instrument appointing a proxy (and power of attorney or other authority, if any, under which it is signed or a certified copy of the power or authority) must be received by the Company not less than 24 hours prior to the General Meeting, that is, by 9.30 am on Sunday, 19<sup>th</sup> June, 2016 at the Company’s registered office, being Suite 403, Level 4, 25 Lime Street, Sydney, NSW, 2000.

#### **4. Bodies Corporate**

A Shareholder which is a body corporate and which is entitled to attend and vote at a meeting of Shareholders of the Company may appoint an individual as a representative to exercise all or any of the powers the body corporate may exercise at the meeting or in the capacity of a Shareholder’s proxy. The appointment may be a standing one. Unless otherwise specified in the appointment, the representative may exercise, on that body corporate’s behalf, all of the powers that the body could exercise at a meeting or in voting on a resolution. The representative must present satisfactory evidence that they are authorised to act as the body corporate’s representative prior to admission to the meeting.



# Explanatory Memorandum

This Explanatory Memorandum has been prepared for the information of Shareholders of Phoslock Water Solutions Limited ACN 099 555 290 (**Phoslock** or **Company**) in connection with the business to be considered at the General Meeting to be held at 9.30 am on Monday, 20<sup>th</sup> June, 2016 at the offices of the Company at Suite 403, 25 Lime Street, Sydney, NSW.

This Explanatory Memorandum is incorporated in, and forms part of, the accompanying Notice of Meeting. The purpose of this Explanatory Memorandum is to provide Shareholders with information relevant to the Resolutions proposed to be put to and considered by Shareholders at the General Meeting.

Terms and expressions used in this Explanatory Memorandum, the Notice of Meeting and the Proxy Form have the meaning given to them in the “**Definitions**” section located at the end of this Explanatory Memorandum.

Details of the items of business to be considered at the General Meeting are set out below.

Your Directors recommend that Shareholders carefully read this Explanatory Memorandum and accompanying Notice of Meeting in full before making a decision in relation to any of the Resolutions. If Shareholders are in any doubt about what to do, they should consult their legal, financial or other professional adviser.

## Item 1. Ratification of prior issue of 20,000,000 Shares (Resolution 1)

### 1. Background

On 4 May, 2016, Phoslock announced to ASX that it had raised \$2,727,200 (before costs) pursuant to a share placement of 38,960,000 Shares at an issue price of 7 cents per Share to 30 sophisticated or professional investors and institutions in Australia and overseas. Due to certain placees rounding down their applications for Shares, the total number of Shares, the subject of that share placement, is now 38,874,286 Shares raising \$2,721,200 (before costs). Also, the number of placees has increased to 37.

Demand for the share placement significantly exceeded expectations, prompting your Directors to increase the size of the capital raising.

At the same time it announced the share placement to ASX, Phoslock also announced that it had approved a share purchase plan (**SPP**). Under the SPP, Shareholders with a registered address in Australia or New Zealand would have the opportunity to apply for up to \$15,000 worth of Shares at the same issue price as the above mentioned share placement namely, 7 cents per Share.

On 12 May, 2016 Phoslock issued 20,000,000 Shares pursuant to the above mentioned share placement within the 15% annual limit set out in ASX Listing Rule 7.1 (described below). The balance of the Shares, the subject of that share placement, requires the approval of Shareholders and is the subject of Resolution 2 below.

The issue of those 20,000,000 Shares virtually exhausted Phoslock’s capacity to issue further Shares without shareholder approval under ASX Listing Rule 7.1 (described below).

### 2. ASX Listing Rules 7.1 and 7.4

Subject to a number of exceptions, in general terms, ASX Listing Rule 7.1, limits the number of equity securities (for example, shares, options and convertible notes) that a listed company such as Phoslock may issue or agree to issue without shareholder approval in any 12 month period to 15% of its issued ordinary shares.

Further, under the ASX Listing Rules, equity securities issued with shareholder approval do not form part of the 15% annual limit set out in ASX Listing Rule 7.1 (described above).

ASX Listing Rule 7.4 provides that where a listed company such as Phoslock, in general meeting, subsequently approves a prior issue of securities and that prior issue did not breach ASX Listing Rule 7.1, those securities will be treated as having been made with shareholder approval for the purposes of ASX Listing Rule 7.1.

Accordingly, by treating those 20,000,000 Shares issued within the 15% annual limit set out in ASX Listing Rule 7.1 as having been made with Shareholder approval under ASX Listing Rule 7.4, those Shares will not be deducted in calculating the 15% annual limit under ASX Listing Rule 7.1.

In other words, by Shareholders ratifying that prior issue of those 20,000,000 Shares under ASX Listing Rule 7.4, the Company will retain the flexibility to issue new Shares and other securities in future (without the need to obtain prior Shareholder approval) up to the 15% annual limit set out in ASX Listing Rule 7.1.

### **3. Resolution 1**

Resolution 1 requires Shareholders to approve the prior issue of 20,000,000 Shares to certain professional or sophisticated investors and institutions for the purposes of ASX Listing Rule 7.4.

Resolution 1 is proposed as an ordinary resolution and will be passed if more than 50% of the votes cast by Shareholders entitled to vote are in favour of that Resolution.

Shareholders' attention is drawn to the voting exclusion statement in relation to Resolution 1 in the Notice of Meeting.

### **4. Information required for Shareholder approval under the ASX Listing Rules**

In accordance with ASX Listing Rule 7.5, the following information is provided for Shareholders:

1. the issue of the 20,000,000 Shares at an issue price of 7 cents per share did not breach ASX Listing 7.1;
2. the 20,000,000 Shares were issued to 37 sophisticated or professional investors and institutions in Australia and overseas, identified by your Directors as being individuals or entities to whom the Company was not required to give a disclosure document under the Corporations Act in respect of the issue;
3. the 20,000,000 Shares rank equally with all other Shares on issue in the Company; and
4. the funds raised from the share placement and the SPP (after costs) will be used to expand sales and marketing coverage and technical support, predominantly in China, increase working capital including growing inventories and substantially reduce the liabilities of the Company.

### **Board Recommendation**

The Board unanimously recommends that Shareholders vote in favour of Resolution 1.

## **Item 2. Approval of issue of 18,874,286 Shares (Resolution 2)**

### **1. Background**

As outlined above in relation to Resolution 1, on 4 May, 2016, Phoslock announced to ASX that it had raised \$2,727,200 (before costs) pursuant to a share placement of 38,960,000 Shares at an issue price of 7 cents per Share to 30 sophisticated or professional investors and institutions in Australia and overseas. Due to certain placees rounding down their application for Shares, the total number of Shares, the subject of that share placement, is now 38,874,286 Shares raising \$2,721,200 (before costs). Also, the number of placees has increased to 37.

On 12 May, 2016, Phoslock issued 20,000,000 Shares within the 15% annual limit set out in ASX Listing Rule 7.1 (described above). The issue of those 20,000,000 Shares virtually exhausted Phoslock's capacity to issue securities within the 15% annual limit set out in ASX Listing Rule 7.1.

Accordingly, the balance of those 38,874,286 Shares, the subject of that share placement which Phoslock agreed to issue, namely 18,874,286 Shares, is subject to the approval of Shareholders as required by ASX Listing Rule 7.1. The holding of the General Meeting to approve the issue of those 18,874,286 Shares was foreshadowed in Phoslock's announcement to ASX on 4 May, 2016. If Resolution 2 is not passed, the Company will be precluded from issuing those Shares.

### **2. ASX Listing Rule 7.1**

As mentioned above in relation to Resolution 1, subject to a number of exceptions, in general terms, ASX Listing Rule 7.1 limits the number of equity securities that a listed company may issue or agree to issue without shareholder approval in any 12 month period to 15% of its issued ordinary shares.

The ASX Listing Rules permit a listed company to agree to issue equity securities in excess of that 15% annual limit, provided the issue of those equity securities is subject to shareholder approval.

As the total number of Shares, the subject of the capital raising announced to ASX by Phoslock on 4 May, 2016, exceeded that 15% annual limit, the excess, namely 18,874,286 Shares, was subject to the approval of Shareholders under ASX Listing Rule 7.1.

### **3. Resolution 2**

Resolution 2 requires Shareholders to approve the issue of up to 18,874,286 Shares for the purposes of ASX Listing Rule 7.1.

Resolution 2 is proposed as an ordinary resolution and will be passed if more than 50% of the votes cast by Shareholders entitled to vote are in favour of that Resolution.

Shareholders' attention is drawn to the voting exclusion statement in relation to Resolution 2 in the Notice of Meeting.

### **4. Information required for Shareholder approval under ASX Listing Rules**

In accordance with ASX Listing Rule 7.3, the following information is provided to Shareholders:

1. The Company will issue up to 18,874,286 Shares being the balance of the Shares not issued under the share placement announced to ASX on 4 May, 2016. The issue of those Shares was subject to the approval of Shareholders.
2. The Directors intend to issue the Shares on 22 June, 2016. If they are not issued on that date, the Shares will be issued as soon as reasonably practicable after that date but, in any event, no later than 3 months after the date of the Meeting.
3. The Shares will be issued at an issue price of 7 cents per Share.
4. The Shares will be issued to the same 37 placees referred to in relation to Resolution 1.

5. The Shares will rank equally with all other Shares on issue in the Company.
6. The funds raised on the issue of the Shares will be used for the same purposes referred to in relation to Resolution 1.

### **Board Recommendation**

The Board unanimously recommends that Shareholders vote in favour of Resolution 2.

### **Item 3. Approval of issue of Options to Mr Robert Schuitema (Resolution 3)**

#### **1. Background**

In order to continue to optimally align the Managing Director's (Mr Schuitema) performance based remuneration with the interests of Shareholders generally, the Company proposes to issue up to 2,000,000 Options to Mr Schuitema. The proposed terms and conditions attaching to those Options, including applicable vesting condition, are set out below.

The issue of options as part of the remuneration packages of executive directors is a well-established practice of many publicly listed entities and has the benefit of conserving cash whilst properly rewarding and incentivising the executive director concerned.

#### **2. Listing Rule 10.11**

ASX Listing Rule 10.11 provides that, unless one of the exceptions in ASX Listing Rule 10.12 applies, a listed company such as Phoslock must not, without the approval of shareholders, issue or agree to issue equity securities to a Related Party, or to a person whose relationship with the listed company, or a Related Party of a listed company is, in ASX's opinion, such that approval should be obtained.

Mr Schuitema being a Director is a Related Party. Approval of the proposed issue of Options is therefore required under ASX Listing Rule 10.11.

In accordance with ASX Listing Rule 7.2 (Exception 14), if approval is given under ASX Listing Rule 10.11, approval is not required under ASX Listing Rule 7.1 (described above). Accordingly, the proposed issue of Options to Mr Schuitema will not be included in the 15% annual limit on the Company's placement capacity set out in ASX Listing Rule 7.1 (described above).

#### **3. Chapter 2E of the Corporations Act**

Section 208 of the Corporations Act provides that for a public company to give a financial benefit to a related party of the public company, the public company must:

- obtain the approval of the public company's members in the manner set out in sections 217 to 227 of the Corporations Act; and
- give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in sections 210 to 216 of the Corporations Act.

Section 211 of the Corporations Act provides that member approval is not required under section 208 to give a financial benefit if (among other things) the benefit is remuneration to a related party as an officer or employee of the public company, and to give the remuneration would be reasonable given the circumstances of the public company or entity giving the remuneration and the related party's circumstances (including the responsibilities involved in the office or employment).

The proposed issue of Options to Mr Schuitema is:

- being given as part of Mr Schuitema's remuneration package as managing director of the Company; and

- in the opinion of the Board, reasonable in the circumstances given the responsibilities and recent performance of Mr Schuitema and the exercise price of the Options.

The proposed issue of up to 2,000,000 Options to Mr Schuitema therefore falls within the exception set out in section 211 of the Corporations Act and Shareholder approval for the proposed issue of the Options will only be sought under ASX Listing Rule 10.11 (and not Chapter 2E of the Corporations Act). However, Shareholders will still have the opportunity to consider the proposed issue of Options to Mr Schuitema.

#### **4. Resolution 3**

Resolution 3 requires Shareholders to approve the issue of up to 2,000,000 Options to Mr Schuitema for the purposes of ASX Listing Rule 10.11. If Shareholders do not approve the proposed issue, those Options will not be issued to Mr Schuitema.

Resolution 3 is proposed as an ordinary resolution and will be passed if more than 50% of the votes cast on Resolution 3 by Shareholders entitled to vote are in favour of that Resolution.

Shareholders' attention is drawn to the voting exclusion statement in relation to Resolution 3 in the Notice of Meeting.

#### **5. Information required for Shareholder approval under the ASX Listing Rules**

In accordance with ASX Listing Rule 10.13, the following information is provided to Shareholders:

- Mr Schuitema is a Related Party of the Company by virtue of being a Director of the Company;
- Mr Schuitema will be issued with up to 2,000,000 Options at an exercise price of \$0.09 (9 cents) per Option on the terms and conditions set out below;
- the Options will be issued as soon as reasonably practicable after the date of the General Meeting, but in any event within 1 month after the date of the General Meeting; and
- the Options, the subject of Resolution 3, will be issued for nil consideration. No funds will be raised from the issue. The Company will raise a total of \$180,000 if all the Options are issued and exercised during the exercise period. It is anticipated that any funds raised from the exercise of the Options will be used for working capital purposes of the Company. There is no guarantee that the Options will be exercised at all.

#### **6. Terms and Conditions of the Options**

The terms and conditions of the Options are as follows:

- each Option entitles the holder, on exercise, to one Share;
- each Option is exercisable at \$0.09 (9 cents) per Option;
- each Option will expire at 5.00 pm on 30 September, 2017;
- Vested Options may be exercised at any time on or after 1 July, 2017 but prior to the expiry date, namely 5.00 pm on 30 September, 2017;
- the Options will vest on 1 July, 2017 subject to Mr Schuitema still being employed by the Company or a subsidiary on that date;
- all Shares issued on the exercise of the Options will rank equally with all other Shares on issue in the Company;
- an Option is only transferrable with the consent of the Company;

- there are no participating rights or entitlements inherent in the Options;
- the Company will not apply to ASX for official quotation of the Options;
- the Company will apply for official quotation by ASX of all Shares issued upon the exercise of the Options;
- if the Company makes a bonus issue of Shares to existing Shareholders, the number of Shares over which Options are exercisable may be increased by the number of Shares that the holder would have received if the holder had exercised the Options immediately before the record date for the bonus issue;
- if the Company makes a pro-rata issue (other than a bonus issue) of Shares to existing Shareholders after the date of issue of the Options, the exercise price of an Option will be adjusted in accordance with the formula set out in ASX Listing Rule 6.22.2; and
- in the event of any reconstruction of the issued capital of the Company prior to the expiry date of the Options, all rights of the Optionholder will be varied in accordance with the ASX Listing Rules.

### **Board Recommendation**

The Board (with Mr Schuitema abstaining) unanimously recommends that Shareholders vote in favour of Resolution 3.

### **Item 4. Approval of issue of Options to employees and consultants (Resolution 4)**

#### **1. Background**

In order to continue to or better align the interests of certain employees of, and consultants to, the Company and its subsidiaries with those of Shareholders generally and also incentivise and retain valuable employees of, and consultants to, the Company and its subsidiaries, the Company proposes to issue up to 10,600,000 Options to such employees and consultants.

None of the employees and consultants to whom Options may be issued is a Related Party of the Company except for Serenety Holdings Pty Ltd. The issue of Options to that company is the subject of Resolution 5.

#### **2. ASX Listing Rule 7.1**

An explanation of the operation of ASX Listing Rule 7.1 is set out above in this Explanatory Memorandum in relation to Resolutions 1 and 2.

#### **3. Resolution 4**

Resolution 4 requires Shareholders to approve the issue of up to 10,600,000 Options for the purposes of ASX Listing Rule 7.1. If Shareholders approve the proposed issue, those Options will not be deducted in calculating the 15% annual limit set out in ASX Listing Rule 7.1. However, if Shareholders do not approve the proposed issue, your Directors reserve the right to nevertheless issue those Options to the employees and consultants concerned without the approval of Shareholders within the 15% annual limit set out in ASX Listing Rule 7.1.

Resolution 4 is proposed as an ordinary resolution and will be passed if more than 50% of the votes cast by Shareholders entitled to vote are in favour of that Resolution.

Shareholders' attention is drawn to the voting exclusion statement in relation to Resolution 4 in the Notice of Meeting.

#### 4. Information required for Shareholder approval under ASX Listing Rules

In accordance with ASX Listing Rule 7.3, the following information is provided to Shareholders:

- the Company will issue up to 10,600,000 Options at an exercise price of \$0.09 (9 cents) per Option to consultants to, or employees of, the Company or its subsidiaries as selected by the Board;
- the Options will be issued on the same terms and conditions applicable to the Options proposed to be issued to Mr Schuitema described above, except that an Option will only vest if the applicable Optionholder is an employee of, or consultant to, the Company or a subsidiary on 1 July, 2017. Vested Options may be exercised at any time on or after 1 July, 2017 but prior to the expiry date, namely 5.00 pm on 30 September, 2017;
- the Directors intend to issue the Options on 22 June, 2016. If they are not issued on that date, the Options will be issued as soon as reasonably practicable after that date but in any event within 3 months after the date of the General Meeting; and
- the Options, the subject of Resolution 4, will be issued for nil consideration. No funds will be raised from the issue. The Company will raise a total of \$954,000 if all the Options are issued and exercised during the exercise period. Any funds raised on exercise of the Options will be used for Phoslock's working capital. There is no guarantee that the Options will be exercised at all.

#### Board Recommendation

The Board unanimously recommends that Shareholders vote in favour of Resolution 4.

#### Item 5. Approval of issue of Options to Related Party consultant (Resolution 5)

##### 1. Background

As mentioned above in relation to Resolution 4, Phoslock wishes to continue to or better align the interests of employees of, and consultants to, the Company and its subsidiaries with those of Shareholders generally. One of those consultants, namely, *Serenety Holdings Pty Ltd* (**Serenety**) is controlled by a family member of the Chair of Phoslock and is accordingly a Related Party. Therefore, unlike the other employees and consultants to which Resolution 4 applies (and to whom may be issued equity securities without the approval of Shareholders within the 15% annual limit set out in ASX Listing Rule 7.1), the issue of equity securities to a consultant which is a Related Party requires the approval of Shareholders under ASX Listing Rule 10.11, unless a relevant exception applies.

##### 2. ASX Listing Rule 10.11

As mentioned above in relation to Resolution 3, ASX Listing Rule 10.11 provides that, unless one of the exceptions in ASX Listing Rule 10.12 applies, a listed company such as Phoslock must not, without the approval of shareholders, issue or agree to issue equity securities to a Related Party, or to a person whose relationship with the listed company or a Related Party of a listed company is, in ASX's opinion, such that approval should be obtained.

Serenety being a company controlled by a family member of the Chair of the Company is a Related Party. Neither Serenety nor its controlling shareholder is a member of the KMP.

In accordance with ASX Listing Rule 7.2 (Exception 14), if approval is given under ASX Listing Rule 10.11, approval is not required under ASX Listing Rule 7.1 (described above). Accordingly, the proposed issue of Options to Serenety will not be included in the 15% annual limit on the Company's placement capacity set out in ASX Listing Rule 7.1 (described above).

### 3. Chapter 2E of the Corporations Act

As mentioned above in relation to Resolution 3, section 208 of the Corporations Act provides that for a public company to give a financial benefit to a related party of the public company, the public company must:

- obtain the approval of the public company's members in the manner set out in sections 217 to 227 of the Corporations Act; and
- give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in sections 210 to 216 of the Corporations Act.

The Board is of the view that the proposed issue of up to 1,000,000 Options to Serenety falls under one of the exceptions to the provisions in Chapter 2E of the Corporations Act (being the exception contained in section 210 of the Corporations Act which provides that shareholder approval is not required if the financial benefit is on terms that would be reasonable in the circumstances if the public company and the related party were dealing at arm's-length or are less favourable to the related party than those terms). In any event, even though approval of Shareholders will not be sought under Chapter 2E of the Corporations Act for the proposed issue of Options to Serenety, Shareholders will nevertheless have the opportunity to approve the proposed issue under ASX Listing Rule 10.11. If Shareholders do not approve the issue of the Options, those Options will not be issued to Serenety.

### 4. Resolution 5

Resolution 5 requires Shareholders to approve the issue of up to 1,000,000 Options to Serenety for the purposes of ASX Listing Rule 10.11.

Resolution 5 is proposed as an ordinary resolution and will be passed if more than 50% of the votes cast by Shareholders entitled to vote are in favour of that Resolution.

Shareholders' attention is drawn to the voting exclusion statement in relation to Resolution 5 in the Notice of Meeting.

### 5. Information required for Shareholder approval under ASX Listing Rules

In accordance with ASX Listing Rule 10.13, the following information is provided to Shareholders:

- Serenety is a Related Party of the Company by virtue of being controlled by a family member of the Chair of the Company;
- Serenety will be issued with up to 1,000,000 Options at an exercise price of \$0.09 (9 cents) per Option;
- the Options will be issued on the same terms and conditions applicable to the Options proposed to be issued to the other employees of, and consultants to, the Company or its subsidiaries referred to in Resolution 4 above including that the Options will only vest if Serenety is a consultant to the Company or a subsidiary on 1 July, 2017. Vested Options may be exercised at any time on or after 1 July, 2017 but prior to the expiry date, namely 5.00 pm on 30 September, 2017;
- the Directors intend to issue the Options on 22 June, 2016. If they are not issued on that date, the Options will be issued as soon as reasonably practicable after that date but in any event within 1 month after the date of the General Meeting; and
- the Options, the subject of Resolution 5, will be issued for nil consideration. No funds will be raised from the issue. The Company will raise a total of \$90,000 if all the Options are issued and exercised during the exercise period. Any funds raised on exercise of the Options will be used



for the working capital purposes of the Company. There is no guarantee that the Options will be exercised at all.

**Board Recommendation**

The Board (with Mr Laurence Freedman AM abstaining) recommend that Shareholders vote in favour of Resolution 5.

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## Definitions

Unless the context requires otherwise, the following words shall have the following meanings in this Explanatory Memorandum, the Notice of Meeting and the Proxy Form:

- (1) **\$** refers to Australian dollars.
- (2) **ASX** means ASX Limited ACN 008 624 691 or, as the context requires, the market operated by it.
- (3) **ASX Listing Rules** means the listing rules of ASX (as amended or waived).
- (4) **Board** means the board of directors of the Company.
- (5) **Closely Related Party** has the meaning given in section 9 of the Corporations Act and includes a spouse, dependent and certain other close family members of the KMP, as well as companies controlled by a KMP.
- (6) **Company** means Phoslock Water Solutions Limited ACN 099 555 290.
- (7) **Corporations Act** means the *Corporations Act 2001* (Cth).
- (8) **Directors** mean the directors of the Company from time to time.
- (9) **Explanatory Memorandum** means this Explanatory Memorandum.
- (10) **General Meeting** or **Meeting** means the general meeting of the Company convened by the Notice of Meeting.
- (11) **Key Management Personnel** or **KMP** means persons having authority and responsibility for planning, directing and controlling the activities of the Company and its controlled entities, directly or indirectly, including any Director (whether executive or otherwise).
- (12) **Notice of Meeting** means the Notice of General Meeting accompanying this Explanatory Memorandum.
- (13) **Option** means an option to acquire a Share in the Company.
- (14) **Optionholder** means a holder of an Option.
- (15) **Proxy Form** means the proxy form accompanying this Explanatory Memorandum.
- (16) **Related Party** has the meaning given in the ASX Listing Rules.
- (17) **Resolution** means a resolution set out in the Notice of Meeting.
- (18) **Shareholder** means a person or entity entered in the Company's register of members from time to time as the holder of Shares.
- (19) **Shares** means fully paid ordinary shares in the capital of the Company quoted on the ASX under the code "PHK".
- (20) **SPP** means the share purchase plan of the Company as announced to ASX on 4 May, 2016.

All references to time in the Notice of Meeting are to Sydney time.

# Shareholder Proxy Form

Phoslock Water Solutions Limited.

Please post or deliver all Proxies to Suite 403, 25 Lime Street, Sydney, NSW 2000.

I/We .....  
of .....  
appoint .....  
or in his/her absence.....  
of .....

or, if no person is named above or is absent, the Chair of the Meeting, as my/our proxy to vote for me/us on my/our behalf at the General Meeting of the Company to be held at 9.30 am (Sydney time) on Monday, 20<sup>th</sup> June, 2016 and at any adjournment of that meeting.

**Important Notes:** If you appoint a proxy, we encourage you to direct your proxy how to vote on each item of business.

The Chair of the General Meeting intends to vote all undirected proxies in favour of each Resolution.

In relation to Resolutions 3 and 4, if the Chair of the General Meeting is your proxy or is appointed your proxy by default, unless you indicate otherwise by ticking either the 'FOR', 'AGAINST' or 'ABSTAIN' box in relation to that Resolution, you will have expressly authorised the Chair to exercise your proxy in respect of that Resolution even if that Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel of the Company.

Other than in the circumstance contemplated above, Directors, other Key Management Personnel of the Company and their Closely Related Parties (see Notice of Meeting and overleaf) are not permitted to cast any votes in respect of Resolutions 3 and 4 that arise from any undirected proxy that they hold. If the Directors or another Key Management Personnel (other than the Chair of the Meeting) is your proxy, and you fail to provide a voting direction in respect of Resolutions 3 and 4, your vote will not be cast.

If appointing a second proxy please state the number of Shares or the percentage of voting rights applicable to this Proxy Form.

Number of Shares OR  %

I/We direct my/our proxy to vote in respect of the Resolutions to be considered as indicated with an "X" below, and to vote or abstain in respect of any procedural resolution as my/our proxy thinks fit.

	FOR	AGAINST	ABSTAIN*
<b>Resolution 1: Ratification of prior issue of Shares</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Resolution 2: Approval of issue of Shares</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Resolution 3: Approval of issue of Options to Mr R Schuitema</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Resolution 4: Approval of issue of Options to employees and consultants</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Resolution 5: Approval of issue of Options to Related Party consultant</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If no direction is given above, I/we authorise my/our proxy to vote or abstain as my/our proxy thinks fit in respect of each Resolution to be considered by the Meeting and any adjournment of the Meeting (subject to the restrictions set out in "Important Notes" above).

\*If you mark the Abstain box for a particular Resolution, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

**Individual or Shareholder 1**

Individual/Sole Director or Sole Company Secretary

**Shareholder 2**

Director

**Shareholder 3**

Director/Company Secretary

Date: .....

This Proxy Form should be signed by the Shareholder. If a joint holding, all Shareholders must sign. If signed by the Shareholder's attorney, the power of attorney must have been previously lodged with the Company or a certified copy attached to this Proxy Form. If executed by a company, the form must be executed in accordance with the company's Constitution and the Corporations Act 2001 (Cth).

For personal use only

# Instructions for completing this Proxy Form

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## Appointment of proxy

Insert the name of your proxy, if your proxy is someone other than the Chair of the General Meeting. If you leave the appointment section of this Proxy Form blank or your named proxy is unable to attend, the Chair of the General Meeting for the time being will be your proxy to vote your Shares. Your proxy need not be a Shareholder of the Company.

You may appoint one or 2 proxies to attend and vote at the General Meeting on your behalf. If you appoint 2 proxies, the appointment may specify the proportion or number of votes that each proxy may exercise. If the appointment does not specify a proportion or number, each proxy may exercise one-half of the votes in which case any fraction of votes will be disregarded. Where a Shareholder appoints more than one proxy, neither proxy is entitled to vote on a show of hands. If you require an additional Proxy Form, the Company will supply it on request.

## Voting directions to your proxy

You should direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your Shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of Shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy (subject to any voting exclusion) may vote as he or she chooses. If you mark more than one box on an item, your vote on that item will be invalid.

The Chair of the General Meeting intends to vote all undirected proxies in favour of each Resolution. In relation to each of Resolutions 3 and 4, if the Chair of the General Meeting is your proxy or is appointed your proxy by default, unless you indicate otherwise by ticking either the 'FOR', 'AGAINST' or 'ABSTAIN' box in relation to that Resolution, you will have expressly authorised the Chair to exercise your proxy in respect of that Resolution even if that Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel of the Company.

Other than in the circumstance contemplated above, Directors, other Key Management Personnel of the Company and their Closely Related Parties (see Notice of Meeting) are not permitted to cast any votes in respect of Resolutions 3 and 4 that arise from any undirected proxy that they hold. If the Directors or another Key Management Personnel (other than the Chair of the Meeting) is your proxy, and you fail to provide a voting direction in respect of Resolutions 3 and 4, your vote will not be cast.

## Signature(s)

You must sign this form in the spaces provided as follows:

- **Individual Holding:** The Shareholder must sign in the box.
- **Joint Holding:** If Shares are held in joint names, all Shareholders must sign in the boxes.
- **Attorney:** If you are signing as an Attorney, the Power of Attorney must have already been lodged with the Company or, alternatively, a certified copy of it must accompany this Proxy Form.
- **Companies:** Only duly authorised officer(s) can sign on behalf of a company. Please sign in the boxes provided which state the office held by the signatory, i.e. Director and Director, or Company Secretary and Director, or Sole Director and Sole Company Secretary.

## Lodgement of Proxy

The Proxy Form and the power of attorney or other authority (if any) under which it is signed (or a certified copy) must be received by the Company at least 24 hours before the time for holding the General Meeting that is, by 9.30 am on Sunday, 19<sup>th</sup> June, 2016. Proxy Forms and accompanying documents may be sent to the Company by posting or delivering them to the address on this form.