Phoslock Water Solutions Limited

annual report 2008

PHOSLOCK WATER SOLUTIONS LIMITED PHOSLOCK WATER SOLUTIONS LIMITED PHOSLO

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Cover image – Het Groene Eiland in the Netherlands at right showing Algal bloom (untreated with Phoslock) and at left water quality after Phoslock application.

Corporate Directory

Directors

Dr David Garman
Chairman

Robert Schuitema
Managing Director

Russell Brown
Non Executive Director

The Hon. Pam Allan
Non Executive Director

Management

Colin Upcroft
Chief Financial Officer & Company Secretary

Nigel Traill
General Manager Europe, Africa & The Middle East

Eddie Edmunds
Chief Operating Officer

Andrew Winks
General Manager Operations

Sarah Groves
General Manager Technical

Auditors

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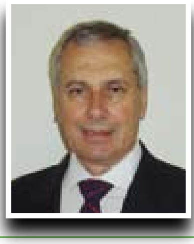
Chairman's Report



It is pleasing to announce that all applications of Phoslock in the last year have exceeded our expectations in terms of results, but disappointingly, these have not translated into significant increases in sales in this financial year.

The Board has taken steps to contain expenditure during this period of low sales conversion but has been able, despite a general downturn in the economy worldwide, to increase its potential near term sales targets. In effect there has been a continued and continuing increase in the potential revenues for the company.

New markets in Canada and in aquaculture have demonstrated our potential, with our clients, being some of our best unpaid marketers. They have also pointed to new market areas to deal with stormwater inflows from urban developments. This is likely to be a significant new area for sales activity.

The timing for new applications in these areas means that the northern hemisphere spring will be a busy time for us all. Entry into these markets is a non-trivial activity with high compliance and demonstration costs in terms of both time and money, making initial sales less profitable.

European operations are being consolidated with the German and Dutch applications showing spectacular results from treatments undertaken. These are being disseminated throughout the world in a strong marketing campaign. The UK after a poor start in sales and operations is now showing the potential it always had with more than 6 significant applications slated for early next year.

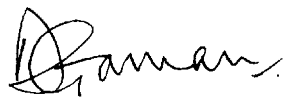
We are presently finalising plans for a major application in an Australia urban water supply system. The experience of doing this and meeting the rigorous compliance issues has put us in good stead to move more quickly when subsequent Australian applications arise.

The approach of ensuring a sound scientific basis for all applications has proved to be the correct response particularly with the Australian regulators. We have been able to satisfy them on all counts in relation to the safety of Phoslock, and we are pleased to be able to say that all concerns have been completely satisfied.

It has been a difficult and frustrating year for staff but under the leadership of Robert Schuitema they have maintained their enthusiasm in difficult circumstances.

All this has led to a major UK investment house with an interest in environmental technologies taking a significant stake in the Company.

The Board believes that the investors' patience will be well rewarded and that we are headed for a significant turnaround in the coming year.



Dr David Garman
Chairman

PWS Board Members from left to right Russell Brown, Dr David Garman, The Hon. Pam Allan and Robert Schuitema

Managing Director's Report

The performance of PWS for FY2007/08 produced mixed results. Revenues were well below the company's expectations with a number of important sales deferred till FY2008/09. Recorded earnings for the year suffered as a consequence.

Beyond the financial results, PWS made significant progress developing Phoslock in our core markets in Europe/UK, Canada and Australia/NZ. Meaningful business exists in each of these markets with PWS now well positioned to capitalise on the significant technical work, trials and marketing undertaken to date.

The Company maintains a conservative strategy towards its liquidity and leverage. At the time of writing this report in mid October, PWS had cash of approx A$1.6m inventories at cost of approx A$1m (with a realisable value in excess of A$2m) and receivables of approx A$.8m – total current assets of A$3.6m and no debt.

Given project delays encountered during FY07/08 together with the withdrawal from the Australian domestic retail market, the PWS Board took the decision to reduce total overheads by approximately 33%. This has been successfully implemented with monthly overheads reduced to approximately A$250,000. Despite these reductions an active on ground presence has been maintained in Australia, China, Western Europe, UK and Canada. As PWS's business base expands it will recruit additional suitably qualified executives with a focus on Western Europe and North America.

Development of Phoslock Business

The demand for a unique product like Phoslock has never been stronger. The world is awash with phosphorus issues with the problems intensifying each year. Good quality water resources are vital for our global survival. PWS are focused on the more affluent countries of Western Europe, North America, Australasia and parts of Asia and Latin America where a willingness to address phosphorus issues exists together with the necessary resources.

Management of water bodies can involve a very complex matrix of stakeholders. These range from semi government authorities, government authorities such as EPA, Ministry of Environment and Conservation, Fisheries, Ministry of Agriculture to public users, anglers, sailors, divers, etc and for drinking water reservoirs additional stakeholders are included e.g. Ministry of Health and other water companies.

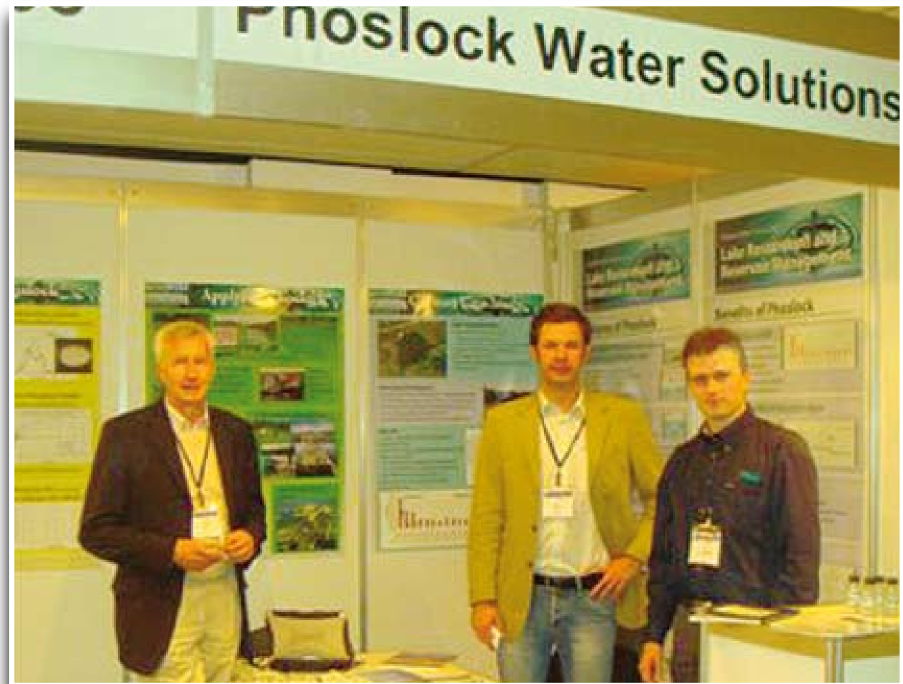
Approval to proceed on projects often requires the agreement of all major stakeholders. In addition finance needs to be arranged for both the cost of the application together with post application monitoring. This process can develop a time line of its own as the various stakeholders request additional information to satisfy their specific needs. Phoslock has assembled a large database of technical studies on the effect of Phoslock applications on humans, fish and biota. Each report provides a clear endorsement for the use of Phoslock with no adverse impacts identified. Addressing these stakeholder issues has proved to be the major reason for project delays.

The majority of Phoslock sales are to semi government organisations who have received various government funding for their projects. The amounts committed to various phosphorus reduction programmes in Western Europe including UK, Canada and US, NZ, and Australia is very significant. Known funding programmes exceed A$1 billion spread over the next 1 to 5 years. A number of our major customers have large funding commitments to undertake projects.

Europe

During the year PWS restructured its European operations. The license for Benelux, held by German company Bentophos (who is also our licencee for Germany, Switzerland and Austria) was transferred into a new company, Phoslock Europe, which is 60% owned by PWS and 40% by Bentophos. Also included are Phoslock licenses for UK, France, Italy and Scandinavia. Phoslock Europe is headquartered at Bentophos extensive operations near Bremen, northern Germany. PWS has relocated its European employees to work side by side with our Bentophos partners. A feature article on European operations can be found on page 8 of the Annual Report.

Phoslock Europe and Bentophos have in total seven executives dedicated to the Phoslock business, covering sales, marketing, project evaluation, specialist technical resources and applications. The western European business has a number of important Phoslock case studies for applications completed in Germany, Holland, UK and Poland over the last two years.



Phoslock Europe representatives, Dr Karl Ernst Nowak, Nicolai Nowak and Patrick Van Goethem at the Phoslock stand IWA World Water Congress, Viennna, September 2008

Canada & North America

Large parts of central Canada and the United States have a unique problem – nearly all of its water drains into rivers and canals and ultimately ends up in the lake system. As a result, every gram of phosphorus from all sources (sewage, urban usage, run off from gardens, industry and agriculture) ultimately finds its way into lake systems. Sewage plants in these areas discharge treated water into lakes. As a result, the lake systems are receiving a continuous flow of phosphorus laden water from many sources. This situation is not sustainable. Over the last 10-20 years the deterioration in the quality of water in rivers, canals and lakes in these areas has been significant, affecting population planning in many areas.

PWS has made enormous progress in Canada during the year. The company has partnered Lake Simcoe Regional Conservation Authority, located 60 km north of Toronto, on various local studies and two marquee trials in July, 2008 to a small lake and storm water basin (SWB) in their catchments areas. At the time of writing this report, trial results looked very promising. Significant progress has also been made on work required for environmental licensing in the province of Ontario.

The rationale of treating SWB with Phoslock is to absorb phosphorus before it enters the lake and river systems. SWB are large repositories for phosphorus. There are thousands of SWB throughout Ontario that are suitable for application with Phoslock. Other Canadian provinces along with various US authorities are closely monitoring the trials with LSRCA. PWS views Canada as potentially one of its largest markets.

Australia & New Zealand

During the year PWS worked with a major Australian metropolitan water authority for use of Phoslock on a 500 hectare drinking water reservoir (DWR) with phosphorus issues. At an advanced stage of this work, PWS was advised that it separately required a license from the Department of Conservation & Climate Change (DECC) to apply Phoslock to this DWR. This process has taken four months (unscheduled in the timetable). The DECC license has recently been issued and it is expected that the application to this DWR will now take place within the next month. This is an important application for our DWR business both here in Australia and other key markets in UK, Singapore and North America.

PWS Operations Manager Andrew Winks applying Phoslock at Cane Parkway Canada

PWS undertook a repeat application of the city portion of river Torrens in Adelaide following excellent results from the initial application in February, 2007. During the year PWS also undertook a number of smaller 1-5 ton applications for various customers.

In New Zealand, Environment Bay of Plenty has continued its work on the rehabilitation of the Rotorua lakes and recently signed an agreement with central and provincial governments for NZ$144 million to complete the rehabilitation project over the next 1 0 years. Of this NZ$20 million has been allocated to use a capping material on its main lake. The timing of this programme has been pushed out several years. The Phoslock trial on Lake Okeraka (Phoslock applied in August 2005, June 2006 and March 2007) produced very good results with the trial report concluding the addition of Phoslock met all trial objectives with no adverse effect on lake water quality or health of fish or biota.

Aquaculture

Progress on developing the aquaculture market for Phoslock has been slower than anticipated. Extensive trials were held over 12 months with a major prawn grower in Malaysia producing positive results compared to the control ponds (ponds not applied with Phoslock).

There are two key issues affecting the development of the aquaculture market. The first is the wide variability in farming practices both between different growers in same countries and the various growing countries themselves. The main areas of variability cover stocking rates, initial water quality, water exchange, feed type, addition of other additives, all of which affect trial outcomes leading to wide ranging of results. The second key issue has been insufficient PWS resources on the ground whilst the trials have been undertaken. Frustratingly farmers have in some cases not followed application protocols, often using the incorrect dosage rates and not applying according to our timetable.

The other issue which has affected the introduction of Phoslock in Asian prawn farms is the continued decline of selling prices for prawns and increased input costs, hence significantly squeezing margins. Growers are focused on lowering input prices, not adding to them.

PWS is selling Phoslock to a distributor in India who reports very good results from the growers using Phoslock. The Indian distributor is in the process of ordering an additional container.

Despite the slow progress to date PWS remains convinced that there is a market for Phoslock in the Asian prawn growing industry with continued reports of major blue green algae outbreaks affecting crop survival rate, size of prawns and total end value of crop.

For PWS to make a success of this industry segment it will need to have dedicated resources in Indonesia and Malaysia developing these markets.

Production

Phoslock is manufactured at the Company's 71% owned joint venture factory near Kunming, China. The current capacity for the plant is approx 7,000 tons per annum of Phoslock products. The plant is being run on a campaign basis as current demand is not sufficient to run the plant full time. The joint venture can ramp up production to meet larger orders at very short notice. When demand requires additional production PWS has plans in place to build a second manufacturing facility.

PWS and its JV partner, IETC, have developed excellent relationships with our key raw material input suppliers.

Technical

Demands on our technical group have been immense over the last 12 months. Their work covers a wide spectrum of activities including testing Phoslock under different water conditions, providing technical support for applications with customers both locally and overseas, monitoring trials and completing reports on applications.

Work continues on developing a suitable non dispersible reusable pellet to absorb phosphorus from water bodies. There is an enormous market waiting for such a pellet, particularly given the amount of phosphorus entering water systems and the four fold increase in the price of phosphorus. The irony of such a product is that the pellet would recover phosphorus which would be used, most likely in fertiliser, which would eventually re-enter the water system.

Global Financial Crisis

At the time of writing this report the world is in the midst of the Global Financial Crisis. The Company is well placed to weather the effects of the crisis being well funded and cash debt free. The significant depreciation of the A$ against the US$, C$, Euro and GBP has improved net selling margins to customers. PWS is focused on converting the extensive sales pipeline into sales. Most of our sales are to semi government organisations who have received various government funding for their projects. PWS would be naive to think that some portion of the government funding will not be reduced over the next few years, however these programmes are long term remediation strategies with community buy-in hence we expect any cut backs to be relatively minor.

Shareholders

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

I would like to thank our hard working team of PWS Directors and executives for their significant contribution during the year. Notwithstanding the company's unsatisfactory financial performance to date, significant effort has been expended developing new markets for Phoslock and undertaking trials and pilot programs so that customers are in a position to commit to large projects.

Robert Schuitema
Managing Director
13 October, 2008.

PWS Operations Manager , Andrew Winks with Technical Manager, Dr Sarah Groves at the Phoslock stand, Australian Aquaculture Conference, Brisbane, August 2008

Phoslock in Europe

Introduction

Phoslock is poised for significant sales in Europe during the next 12 months with a number of cornerstone projects nearing finalization. The number of projects in the pipeline continues to grow and now includes more than ten large-scale projects involving the application of between 50 and 2,000 tonnes of Phoslock.

Over the past two years, nine lakes have been treated with Phoslock in Germany, the Netherlands, Poland and the UK. Results have been excellent. Phoslock is now generating significant interest amongst water authorities in most of the major European countries.

Most of the lakes treated to date have been popular recreational lakes which have histories of being regularly closed to swimmers by health authorities due to toxic blue green algal blooms during summer and autumn.

Since being treated, none of the lakes treated with Phoslock have experienced swimming bans and phosphorus levels in all lakes have remained consistently low.

Significantly, these conditions have also been observed on the Silbersee and Otterstedtersee in Northern Germany, two of the first European lakes to be treated with Phoslock. Both these lakes were treated during autumn 2006 and have now enjoyed two complete swimming seasons without interruption, providing the clearest demonstration to date of the sustainability of Phoslock.

Swimmers at the Silbersee in August 2008, two years after the Phoslock treatment

A major milestone during 2007-08 was the treatment of two Dutch lakes with Phoslock (see section on Dutch Phoslock Applications on pg 9). These applications marked the first ever applications of Phoslock in the Netherlands and can be expected to open the very large Dutch market to Phoslock.

All lakes treated with Phoslock are comprehensively monitored and the growing number of successful case studies are now being used to actively promote Phoslock to lake owners and management authorities across Europe through seminars, advertising and publications in scientific journals.

The Phoslock team in Europe: (left to right) Nicolai Nowak, Nigel Traill, Dr Karl Ernst Nowak, Dr Said Yasseri, Patrick Van Goethem

Sampling prior to an application of Phoslock

Phoslock Europe GmbH

In preparation for the anticipated growth in the European business, PWS restructured its European operations in September 2008 by forming a joint venture company, Phoslock Europe GmbH, registered in Zurich in Switzerland. Phoslock Europe is managed by PWS' General Manager for Europe, Nigel Traill, and is staffed by five employees from PWS and IDN.

Phoslock Europe is 60% owned by PWS and 40% owned by Bentophos GmbH, PWS' licensee for Germany, Austria and Switzerland and an affiliate of the Institut Dr Nowak (see page 10)

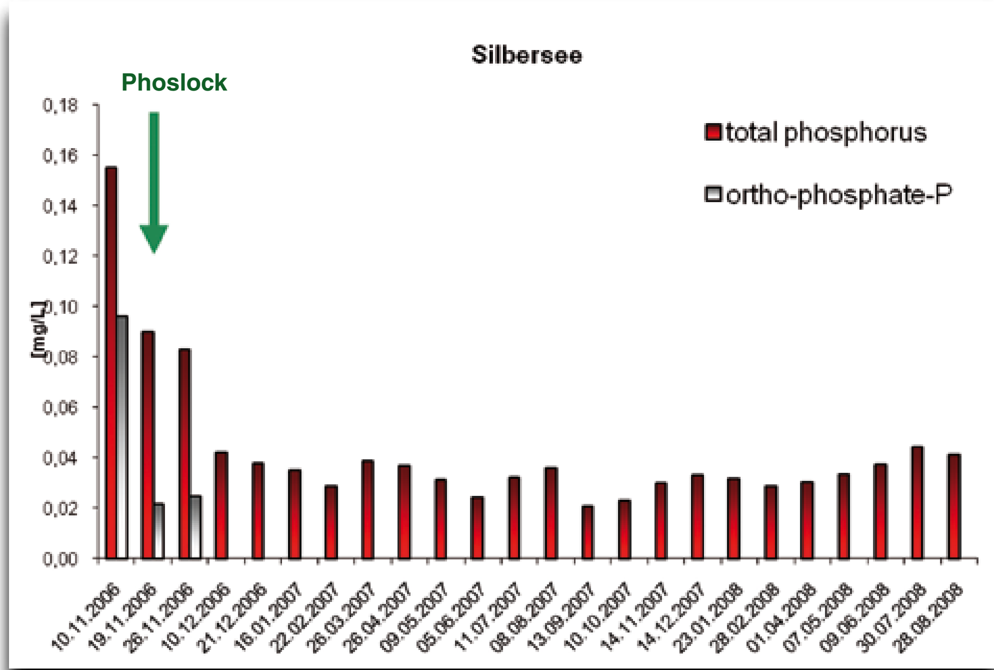
Under the terms of the Joint Venture agreement, Phoslock Europe GmbH holds the license to sell and distribute Phoslock in the United Kingdom, Ireland, Netherlands, Belgium, Luxembourg, France, Italy and the five Scandanavian countries.

In anticipation of the formation of the Joint Venture, PWS' European staff relocated to Northern Germany in mid 2008 and an office for the joint venture was established within the premises of IDN.

The establishment of the Joint Venture enables PWS to access the limnological expertise and laboratory facilities of the Institut Dr Nowak and offer customers in Europe a turn key solution to eutrophication problems, involving supply of product, pre- and post-treatment monitoring, limnological assessment and application.

Aerial view of Het Groen Eiland in Holland

PWS Europe employee, Patrick Van Goethem takes a sediment sample at a Phoslock application site



Reduction in phosphorus levels in the Silbersee following treatment with Phoslock - Nov 06 to Aug 08 (Source: Institut Dr Nowak)

Aerial photo of the Institut Dr Nowak (photo courtesy of Institut Dr Nowak)

Institut Dr Nowak (IDN)

IDN is a private limnological institute based in the town of Ottersberg, 30km east of the city of Bremen in Northern Germany. The institute was founded over 30 years ago by one of Germany's leading limnologists, Dr Karl Ernst Nowak, who today runs the institute jointly with son, Nicolai. Over the past 30 years, the institute has grown significantly and today employs nearly 40 scientists across a wide range of disciplines.

The institute operates an ISO accredited environmental laboratory and offers analytical and consultancy services relating to lake restoration as well as wastewater and food testing to government authorities and private companies across Germany. IDN specialises in the analysis of sediments and dredged materials and is the German reference laboratory for the analysis of organo-tin compounds.

IDN and Bentophos GmbH have been actively working on Phoslock since January 2006 and IDN is now considered the leading competence centre for Phoslock in Europe.

European Water Framework Directive (WFD)

Concerns about human health and economic issues associated with algal blooms are not the only factors driving the growing interest in Phoslock in Europe. Since 2000, the European Union has implemented legislation which will soon require member states to undertake measures aimed at improving the water quality in many of the region's inland and coastal waterways.

The legislation is known as the Water Framework Directive (WFD) and is considered to be the most substantial piece of water legislation ever produced by the European Union. It requires that all waters within defined river basins reach "good ecological status" by 2015 and stipulates that member states should identify a program of measures by 2009 that will enable them to achieve this status by 2015.

The parameters measured to determine "good ecological status" vary from country to country, however phosphorus concentrations are considered to be one of the most important indictators of "good ecological status".

This, of course, is good news for Phoslock due to the lack of other environmentally benign measures that can achieve a rapid and sustainable reduction in phosphorus concentrations.

Further information on the Water Framework Directive is available at http://www.euwfd.com/

Dutch Phoslock Applications

Two milestone applications of Phoslock were undertaken on Dutch lakes during spring 2008.

Lake Rauwbraken

Lake Rauwbraken is a recreational lake near the city of Tilburg in Southern Holland. Popular among divers and swimmers alike, the lake commonly attracts up to 1,000 visitors per day.

In recent years, the high nutrient loadings in the lake's water column and sediments have triggered algal blooms with increasing frequency and severity. In 2007, blue green algal cell counts were so high throughout the swimming season that the lake was only allowed to open for three weeks between May and September.

Following a comprehensive assessment of available technologies, Phoslock was selected as the preferred restoration

Underwater photo from Lake Rauwbraken taken prior to Phoslock treatment (photo courtesy of Frank Van Oosterhout) option by a team of researchers in the Aquatic Ecology Department at the University of Wageningen (WUR). Eighteen tonnes of Phoslock and two tonnes of a flocculent were applied to the lake in April 2008.

In the six months since the application, the secchi depth (or visible depth) of the water has increased from just a few metres to over eight metres and phosphorus concentrations have been reduced to below detection limits. For the first time in many years, the lake remained open to swimmers and divers for the entire season. Importantly, the ecological condition of the lake appears to have recovered significantly with the result that aquatic plants and juvenile fish that hadn't been observed in the lake for many years have returned.

The results have been widely reported in the Dutch press with several newspapers carrying headlines such as "Miracle at Rauwbraken".

Het Groene Eiland

Het Groene Eiland is a 5 hectare lake contained within a Dutch camping park, 30 km west of the city of Nijmegen.

The lake was previously connected to a larger body of water known as De Gouden Ham which in turn was connected to the Maas River. Like Lake Rauwbraken, Het Groene Eiland experienced annual blooms of blue green algae and swimming bans were common. As the nutrient rich waters of De Gouden Ham were considered to be a major source of the nutrients entering Het Groene Eiland, in January 2008, the owner of the lake, Adri Van Ooijen decided to build two dams to separate Het Groene Eiland from De Gouden Ham and turn Het Groene Eiland into a lake.

Once the dams were completed, 11 tonnes of Phoslock were applied to the lake in April in order to bind the phosphorus in the lake's water and sediments. A substantial reduction in phosphorus concentrations was observed following the application, however a visible difference between the two bodies of water did not appear until August 2008 when De Gouden Ham experienced a major algal bloom while Het Groene Eiland remained free of blooms and open to swimmers.

Underwater photo from Lake Rauwbraken taken several months after Phoslock treatment showing healthy growth of aquatic plants (photo courtesy of Frank Van Oosterhout)

Algal bloom in De Gouden Ham (untreated with Phoslock), Aug 08 (photo courtesy of Adri Van Ooijen)

Water quality in Het Groene Eiland (treated with Phoslock and adjacent to De Gouden Ham), Aug 08 (photo courtesy of Adri Van Ooijen)

The Phoslock Opportunity in Canada

Canada with its extensive lake systems represents a significant opportunity for the Phoslock technology

PWS have identified significant potential for the use of Phoslock in the markets that Canada offers our technology. Culturally, the condition of the lakes and waterways in Canada is very important to all Canadians. The levels of Phosphorus both in the lakes as well as inflows is a major political issue in Canada, attracting the interest of all political parties. Actively reducing the level of Phosphorus in water systems is seen as a direct means of improving the water quality. Watershed management, the active management of the water catchment areas and waterways, is a major environmental initiative receiving an enormous amount of publicity and political focus. This focus has ensured that both federal and provincial governments are readily providing the funding necessary to exploit new technologies, in the challenge to reduce Phosphorus levels. There exists an almost overwhelming ground swell of support, both public and political, to address water quality issues.

The Phoslock application at Cane Parkway, storm water treatment pond attracted substantial public and political interest

Phoslock has been identified as a critical nutrient management tool in the quest to reduce the levels of Phosphorus. Further, Phoslock is being actively pursued as a potential long term solution to the entire phosphorus issue. The following markets present significant scope for the use of Phoslock in the short term:

- Storm water pond systems, where Phoslock can be applied to capture and prevent the release of phosphorus generated from the runoff after a rain event. In the greater Toronto region alone there are in excess of 1,000 storm water pond systems.
- Water bodies that have issues resulting from sediment release of Phosphorus
- Water bodies that have blue green algal issues

Progress to Date

PWS are working closely with the Lake Simcoe Regional Conservation Authority (LSRCA) – one of the more progressive conservation authorities in Canada who view Phoslock as an immediate and viable solution to the Phosphorus issues impacting the Lake Simcoe basin. There are 36 watershed based conservation authorities in Ontario each with similar phosphorus control and water quality issues as LSRCA. These authorities are closely monitoring developments in LSRCA waterways.

LSRCA,Director of Watershed Management,Mike Walters explains the significance of Phoslock at the Cane Parkway application

PWS and LSRCA have jointly undertaken the first two (fully funded) commercial Phoslock trials in Canada, the first, a storm water treatment pond at Cane Parkway and the second at Lake Scanlon. The trials are current with monitoring continuing until end November 2008. Initial results are very positive. The trial at Cane Parkway attracted significant attention. Included in the list of attendees were Kevin Flynn, Parliamentary Assistant to the Minister for the Environment, Gord Miller, Environmental Minister of Ontario as well as other local ministers and senior executives of the LSRCA. The trial also received coverage on national television, local press and radio. As a result public awareness of Phoslock is at a very high level.

Newmarket, MP Frank Clees, a keen political attendee at the initial Canadian storm water treatment pond application

LSRCA have dedicated a section of their web site to providing technical information on Phoslock as well as providing up to date reporting on the progress of the Phoslock trials. LSRCA are actively promoting and communicating Phoslock developments to all stakeholders.

Phoslock application to Lake Scanlon, Ontario, Canada

Lake Simcoe Regional Conservation Authority

Press Release Extracts

A Watershed for Life

Pilot project shows "great promise" for removing phosphorus pollution

July 25, 2008 – Representatives of local and provincial government gathered near the Town of Newmarket municipal offices Thursday to launch a project they hope will remove phosphorus pollution from the streams and the lake.

Hosted by the Lake Simcoe Region Conservation Authority (LSRCA), the event was held at the Cane Parkway stormwater management pond where a product called Phoslock was applied to the water. The project is being operated in partnership with, and funded by, the Ontario Ministry of the Environment.

Phoslock has undergone a series of extensive toxicology assessments by the Canadian Ministry of Environment (MOE) and on the basis of the results achieved, have approved Phoslock for use in the trials. A report is being prepared by the MOE which will provide a set of application/operational guidelines and approvals for the wider use of Phoslock throughout Canada.

PWS has formed an important strategic alliance with a leading Canadian group well recognised in the Canadian market for combining traditional engineering methods and emerging technologies with a conservationist ethic. Their unique business model has effectively served developers, industries and all levels of government in finding sustainable solutions to difficult water resource issues. This alliance will be an important resource in building the Phoslock business in Canada.

The Way Forward

Approvals

It is expected that approval requirements necessary for the wider use of Phoslock will be completed by the end of 2008. This will allow Phoslock to be actively sold throughout the Canadian market.

Ontario's Environmental Commissioner, Gord Miller fully supports Phoslock initiatives within the province

Resources

PWS will ensure that the necessary level of resources in Canada is in place to ensure the significant potential for Phoslock is realised. These resources will be applied in response to market demand.

The Storm Water Pond (SWP) Market

PWS have approval to conduct a further municipal SWP trial during October - November 2008 to enable completion of a performance benefit analysis. Equipped with this PWS expects to make rapid inroads to this lucrative market.

Left to right LSRCA, Director, Mike Walters with Gord Miller, Ontario Environmental Commissioner and PWS Chief Operating Officer, Eddie Edmunds at the Cane Parkway launch

Other Waterway Markets

Several fully funded commercial pilot programs have been scheduled in Ontario for the first six months of 2009. The success of these applications will be the catalyst for the expansion of Phoslock sales into other Canadian provinces.

Directors' Report

Your directors present their report on the Company and its controlled entities for the financial year ended 30 June 2008.

Directors

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

Dr David Garman

Mr Robert Schuitema

Mr Russell Brown

The Hon. Pam Allan (appointed 10/7/2007)

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

Company Secretary

Mr Colin Upcroft – B Bus, AASA, CPA. Mr Upcroft has been the Chief Financial Officer of Phoslock Water Solutions Limited since April 2001. Mr Upcroft was appointed company secretary on 8 February 2005.

Principal Activities

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

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

Operating Results

The consolidated loss of the economic entity after providing for income tax and eliminating outside equity interests amounted to $3,402,156 (2007: ($4,349,332).

Dividends Paid or Recommended

No dividends have been paid or declared for payment in relation to the financial year ended 30 June 2008 (2007: $Nil).

Review of Operations

Revenues recorded for the year at $722k represent a 30% reduction on prior year of $1,033k. The major reduction was recorded in the domestic market following the strategic withdrawal from the low return domestic retail sector and delays experienced in completing major water authority projects. By contrast European sales increased by 67% to $382k with the Phoslock technology rapidly gaining market acceptance in key geographic sectors.

Despite a disappointing revenue outcome Phoslock Water Solutions Ltd (PWS) recorded an improved earnings result with a loss of $3.4m for financial year 2007/2008 in comparison to the loss of $4.3m recorded in the prior year. Major cost reductions implemented during the year, principally associated with the domestic retail sector, contributed heavily to the improved earnings performance. In addition the 2006/2007 year included some significant one-off items.

Although the Company remains in loss the outlook for the business remains very positive.

The business is now focused on four key market segments:

- Large Australian water authority nutrient management
- European recreational lakes and other water body remediation
- Canadian lake and stormwater phosphorus management
- Aquaculture

PWS is building a business in which it expects near term sales of 3,000 - 5,000 tons and over the longer term 20,000 - 30,000 tons, generating sales revenues in the A$40m - A$60m range and EBIT of A$15m - A$25m. 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.

Financial Position

The net assets of the economic entity have reduced by $2.9m from 30 June 2007 to $4,638,934 in 2008 The net decrease is a result of trading losses eroding cash reserves and reduced asset values after absorbing depreciaton 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 licencee 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 economic 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, 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. PWS is currently finalising the formation of a European joint venture entity with the current German licencee, Bentophos. Bentophos will retain the licence to service Germany, Austria and Switzerland whilst the joint venture will have responsibility for United Kingdom, Netherlands, France, Italy, Belgium, Luxembourg and Scandinavia. The joint venture will allow PWS to utilise the significant technical and support resources of Bentophos across a larger range of markets whilst improvings earnings contribution by participation in end customer profit margins and retaining profitability on ex factory product supply.

ii. Rapid expansion in the lucrative 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.

iii. Completion of the initial major NSW water authority application project. Expected success in this treatment is anticipated to be the catalyst in establishing Phoslock as the preferred nutrient management tool for major Australian water authorities.

iv. Continued focus on the aquaculture sector. Work to date has established that there are significant water quality problems which affect the health, size and mortality rate of the species in the ponds. Pilot programs completed to date in Australia and Asia indicate that the environmental qualities of Phoslock add significant value to the yield from growing ponds. PWS is now well placed to commercialise the use of Phoslock in these markets.

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.

Significant Changes in State of Affairs

The following significant changes in the state of affairs of the parent entity occurred during the financial year:

i. On the 18th February 2008 the Company issued 100 $10,000 convertible notes to raise $1,000,000 in additional working capital.

After Balance Date Events

On the 12th August 2008 the Company issued 9,561,817 fully paid shares in the parent entity to raise funds of $1,051,800 for working capital.

Environmental Issues

The economic entity's operations are subject to environmental regulation of the territories in which it operates. Details of the economic entity's performance in relation to environmental regulation is 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.

Information on Directors

Dr David Garman	Chairman (Non-executive)
Qualifications	Ph D (Syd), M. Sc(Syd),B.Sc (Sp Hons) London, MAICD
Experience	Board member since 2001, Executive Director CRC for Waste Management Ltd and the Environmental Biotechnology CRC, President and Director International Water Association.
Interest in Shares and Options	800,000 Ordinary Shares in Phoslock Water Solutions Limited and options to acquire a further 1,500,000 ordinary shares.
Special Responsibilities	Dr Garman is a Member of the Audit Committee and Remuneration Committee.
Mr Robert Schuitema	Managing Director (Executive)
Qualifications	BCA, CA, NZSIA
Experience	Board member since April 2005, Former Managing Director of investment bank Chase Manhattan and later JP Morganchase responsible for the bank's mining, metals and project finance business in Australia and the Asia Pacific region.
Interest in Shares and Options	2,508,017 Ordinary Shares in Phoslock Water Solutions Limited and options to acquire a further 7,000,000 ordinary shares.
Special Responsibilities	Mr Schuitema is a Member of the Audit Committee and Remuneration Committee.
Directorships held in other listed entities	Current director of Electro Optic Systems Holdings Limited (since 1 December 2006)
Mr Russell Brown	Director (Non-executive)
Qualifications	B App Sc (Agri), Post Grad International Marketing (UTS)
Experience	Board member since July 2005, 15 years in International Marketing of agricultural chemicals.
Interest in Shares and Options	500,000 options to acquire ordinary shares in Phoslock Water Solutions Ltd.
Special Responsibilities	Mr Brown is a Member of the Audit Committee and Remuneration Committee.
The Hon. Pam Allan	Director (Non-executive)
Qualifications	B Arts (Hons) Dip.Ed. University of Sydney, Fellow at the Graduate School of Environment, Macquarie University.
Experience	18 years membership of the NSW parliament including 5 years as Minister for the Environment.
Interest in Shares and Options	500,000 options to acquire ordinary shares in Phoslock Water Solutions Ltd.
Special Responsibilities	Ms Allan is a Member of the Audit Committee and Remuneration Committee.

Remuneration Report

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

Remuneration Policy

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

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the economic 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 economic 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 calibre 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.

Performance Income as a Proportion of Total Remuneration

Options issued during the year to specified executives and the non-executive chairman are performance based. Vesting is dependent not only on meeting service period criteria but also linked to the Company meeting set earnings performance levels. The options issued to non-executive director The Hon. Pam Allan are not performance based, representing a component of the initial fees package offered as an inducement to join the PWS board. Executive directors and executives were not paid performance based bonuses 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.

Options Issued as Part of Remuneration for the Year Ended 30 June 2008

Options were issued to specified executives and directors as part of their remuneration with Phoslock Water Solutions Ltd. The options 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. Vesting conditions however, for executive and the non-executive chairman options include achievement by the Company of preset earnings performance levels. Options have been valued by reference to the Black Scholes method.

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 totalling $38,672 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. No indemnities nor agreements to indemnify exist in relation to the Company's auditor.

Key Management Personnel Remuneration

	Short-term Employee Benefits		Post Employment Benefits	Share-based Payments	Total	Performance Related
2008	Salary, Fees and Commissions $	Other $	Superannuation $	Options $	$	%
Directors						
Mr Robert Schuitema	250,000	30,000	25,000	-	305,000	-
The Hon. Pam Allan	43,125	-	3,881	8,026	55,032	-
Dr David Garman	75,000	-	7,500	705	83,205	0.8
Mr Russell Brown	45,000	-	-	-	45,000	-
	413,125	30,000	36,381	8,731	488,237	
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
Ms Sarah Groves	90,833	15,000	8,287	4,816	118,936	4.1
	618,996	110,000	74,044	41,736	844,776	
Total	1,032,121	140,000	110,425	50,467	1,333,013	
2007	Salary, Fees and Commissions $	Other $	Superannuation $	Options $	$	
Directors						
Mr Robert Schuitema	205,000	20,000	20,500	-	245,500	-
Mr Brett Crowley	423,842	10,416	15,907	-	450,165	-
Dr David Garman	60,000	-	3,750	-	63,750	-
Mr Russell Brown	45,000	-	-	-	45,000	-
	733,842	30,416	40,157	-	804,415	
Specified Executives						
Mr Colin Upcroft	142,500	12,500	14,100	-	169,100	-
Mr Nigel Traill	100,000	60,000	9,000	-	169,000	-
Mr Eddie Edmunds	90,443	9,445	15,393	106,716	221,997	48.1
Mr Andrew Winks	61,948	-	4,422	-	66,370	-
	394,891	81,945	42,915	106,716	626,467	
Total	1,128,733	112,361	83,072	106,716	1,430,882	

Key Management Personnel	Vested No	Granted No.	Grant Date	Value per option at grant date	Exercise Price	First Exercise Date	Last Exercise Date
Dr David Garman	-	500,000	11.4.2008	$0.001	$0.40	1.9.2009	31.12.2010
	-	500,000	11.4.2008	$0.001	$0.50	1.9.2010	31.12.2011
The Hon. Pam Allan	-	250,000	29.11.2007	$0.011	$0.40	1.2.2009	1.12.2009
	-	250,000	29.11.2007	$0.021	$0.50	1.2.2010	1.12.2010
Mr Colin Upcroft	-	500,000	18.12.2007	$0.011	$0.40	1.2.2009	1.12.2009
	-	500,000	18.12.2007	$0.021	$0.50	1.2.2010	1.12.2010
Mr Nigel Traill	-	500,000	18.12.2007	$0.011	$0.40	1.2.2009	1.12.2009
	-	500,000	18.12.2007	$0.021	$0.50	1.2.2010	1.12.2010
Mr Andrew Winks	-	150,000	18.12.2007	$0.011	$0.40	1.2.2009	1.12.2009
	-	150,000	18.12.2007	$0.021	$0.50	1.2.2010	1.12.2010
Ms Sarah Groves	-	150,000	18.12.2007	$0.011	$0.40	1.2.2009	1.12.2009
	-	150,000	18.12.2007	$0.021	$0.50	1.2.2010	1.12.2010
	-	4,100,000					

All options vest within one to two years of grant date and expire within two to three years from grant date.

Exercise prices have been set well in excess of the market value at grant date.

The service and performance criteria set to determine remuneration are included in the remuneration report.

All options were granted for nil consideration

Shares Issued on Exercise of Compensation Options

Options exercised during the year that were granted as compensation in prior periods.

Key Management Personnel	No of Ordinary Shares Issued	Amount paid per share	Amount unpaid per share
Dr David Garman	400,000	$0.227	$0.00
Mr Colin Upcroft	500,000	$0.227	$0.00
Mr Nigel Traill	800,000	$0.227	$0.00
	1,700,000		

	Options Granted as Part of Remuneration	Total Remuneration Represented by Options	Options Exercised	Options Lapsed	Total
	$	%	$	$	$
Dr David Garman	705	0.8	112,000	-	112,705
The Hon. Pam Allan	8,026	14.6	-	-	8,026
Mr Colin Upcroft	16,052	8.2	140,000	(71,050)	85,002
Mr Nigel Traill	16,052	8.7	224,000	(72,500)	167,552
Mr Andrew Winks	4,816	4.6	-	(146,051)	(141,235)
Ms Sarah Groves	4,816	4.1	-	-	4,816

Employment Contracts of Directors and Senior Executives

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

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

Meetings of Directors

During the financial year, 7 meetings of directors (including committees of directors) were held. Attendances by each director during the year were:

	Directors' Meetings		Committee Meetings			
			Audit		Remuneration	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Dr David Garman	7	7	1	1	1	1
Mr Robert Schuitema	7	7	1	1	1	1
Mr Russell Brown	7	7	1	1	1	1
The Hon Pam Allan	7	7	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 totalling $38,672 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. No indemnities nor agreements to indemnify exist in relation to the Company's auditor.

Options

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

Grant Date	Date of expiry	Exercise price	Number under option
10 June 2005	30 November 2008	$0.20	1,000,000
10 August 2005	10 August 2010	$0.22	2,997,913
24 November 2005	30 November 2008	$0.20	5,000,000
24 November 2005	30 November 2009	$0.30	4,000,000
24 November 2005	30 November 2010	$0.40	4,000,000
15 December 2005	30 November 2008	$0.20	800,000
15 December 2005	30 November 2009	$0.30	800,000
15 December 2005	30 November 2010	$0.40	800,000
20 March 2006	31 December 2008	$0.20	400,000
31 May 2006	30 June 2009	$0.20	100,000
15 August 2006	31 December 2008	$0.20	250,000
19 December 2006	31 December 2008	$0.20	250,000
10 January 2007	30 June 2009	$0.50	1,075,000
10 January 2007	30 June 2010	$0.60	1,000,000
31 May 2007	31 December 2009	$0.50	100,000
23 June 2007	31 December 2009	$0.50	50,000
29 November 2007	1 December 2009	$0.40	250,000
29 November 2007	1 December 2010	$0.50	250,000
18 December 2007	1 December 2009	$0.40	1,350,000
18 December 2007	1 December 2010	$0.50	1,350,000
11 April 2008	31 December 2010	$0.40	500,000
11 April 2008	31 December 2011	$0.50	500,000
15 April 2008	30 June 2010	$0.25	200,000
12 August 2008	31 July 2009	$0.11	2,390,452

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.

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 30 June 2008 has been received and can be found on page 18.

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

Director

Mr Robert Schuitema - Managing Director

Director

Dr David Garman - Chairman of Directors

Dated this 11th day of September 2008

Auditor's Independence Declaration

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

WHK Horwath

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 2008 there have been:

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

ii. no contraventions of any applicable code of professional conduct.

WHK HORWATH
Chartered Accountants

D W LANGDON
Lead Audit Partner

Brisbane, 12 September 2008

European licencee, Bentophos, applying Phoslock to Lake Rauwbraken, Holland.

Corporate Governance

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

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

PRINCIPLE 1 – Lay Solid Foundations for Management and Oversight

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

Meetings of the Board are normally held monthly. The Board meets on other occasions as the business of the company may require. Directors receive comprehensive board papers in advance.

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

The Board is responsible for:

- Appointing the Managing Director, setting objectives and reviewing performance against those objectives, ensuring appropriate policies and procedures are in place for recruitment, training, remuneration and succession planning;
- Setting the strategic direction of the Company and establishing goals to ensure strategic objectives are met;
- Monitoring financial performance including approval of the annual and half-yearly financial reports;
- Ensuring major risks facing the Company and its controlled entities have been identified and appropriate and adequate control, monitoring and reporting mechanisms are in place;
- Receiving detailed briefings from senior management on a regular basis during the year;
- Ensuring the Company complies with relevant laws and conforms to the highest standards of financial and ethical behaviour.

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

PRINCIPLE 2 – Structure the Board to Add Value

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

The Board considers that its structure, size, focus, experience and use of committees enable it to operate effectively and add value to the Company. Due to the relatively small board of directors the Company does not consider it necessary to have a separate nominations committee. The board as a whole fulfills this function.

The Board currently comprises 4 directors: 3 independent non-executive directors including the Chairman, and one executive director being the CEO.

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

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

Taking water and sediment samples at Green Island, Holland

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

PRINCIPLE 3 – Promote Ethical and Responsible Decision – Making

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

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

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

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

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

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

Applying Phoslock to the Hollersee in Bremen, May 2008 (photo courtesy of Institut Dr Nowak)

PRINCIPLE 4 – Safeguard Integrity in Financial Reporting

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

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

In addition the Audit & Compliance Committee is responsible for:

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

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

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

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

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

PRINCIPLE 5 – Make Timely and Balanced Disclosure

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

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

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

The Company strives to ensure that company announcements via the ASX are made, in a timely manner, are factual, do not omit material information and are expressed in a clear and objective manner.

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

PRINCIPLE 6 – Respect the Rights of Shareholders

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

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

The Annual General Meeting provides shareholders with the opportunity to express their views on matters concerning the Company and to vote on other items of business for resolution by shareholders.

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

PRINCIPLE 7 – Recognise and Manage Risk

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

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

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

These include the following:

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

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

Polish delegation at Bremen, Germany, July 2008

PRINCIPLE 8 – Encourage Enhanced Performance

Senior executives including the Managing Director are subject to a formal performance review process on an annual basis. The focus of the performance review is to set specific objectives and monitor performance against them for each executive that are aligned with the Company's business objectives. Further details of the review process are contained in the remuneration report on page 17 of the 2008 Annual Report.

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

PRINCIPLE 9 – Remunerate Fairly and Responsibly

The Board has an established Remuneration Committee comprising all board members. The role of the Remuneration Committee is to review the Company's remuneration plans, policies and practices, including compensation arrangements for the non-executive directors, Managing Director and executives. It is responsible for considering general remuneration policies and practices, recruitment and termination policies and superannuation requirements. There are no retirement schemes or retirements benefits other than statutory benefits for non-executive directors. The company's remuneration policies are set out in the Company's 2008 Annual Report.

Director's Fees

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

The details of remuneration paid to each non-executive director during the last financial year is set out in the Company's 2008 Annual Report.

Executive Remuneration

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

Details of executive's remuneration are also shown in the Company's 2008 Annual Report.

PRINCIPLE 10 – Recognise the Legitimate Interests of Stakeholders

The Board has established a formal Code of Conduct, as disclosed under Principle 3, which documents the Company's approach to stakeholders. The Company expects its Directors and employees to act with the utmost integrity with all stakeholders. The Company encourages participation by its directors and employees in industry bodies that promote and support the industries in which the Company operates.

Preparing to apply Phoslock at a Waste Water Treatment Plant

Phoslock Water Solutions Limited and Controlled Entities

ABN 88 099 555 290

Income Statement for the period ended 30 June 2008

		Consolidated Group		Parent Entity	
	Note	**2008**	2007	**2008**	2007
		$	$	**$**	$
Sales Revenue	2	721,927	1,033,040	-	-
Cost of Sales		(449,409)	(590,849)	-	-
Gross Profit		272,518	442,191	-	-
Other income	2	119,552	89,794	-	-
Distribution expenses		(67,192)	(80,446)	-	-
Marketing expenses		(224,298)	(575,556)	-	-
Occupancy expenses		(199,611)	(221,437)	-	-
Administrative expenses		(867,673)	(1,330,581)	(96)	(100)
Employee benefits expense		(1,959,347)	(2,093,772)	-	-
Depreciation and amortisation		(459,705)	(446,373)	(110,100)	(110,100)
Finance costs		(49,653)	(3,429)	(43,726)	-
Other expenses		(26,002)	(143,190)	-	-
Share of net loss of associates		(4,135)	(11,276)	-	-
Loss before income tax	3	(3,465,546)	(4,374,075)	(153,922)	(110,200)
Income tax benefit	4	28,018	-	28,018	-
Loss for the year		(3,437,528)	(4,374,075)	(125,904)	(110,200)
Loss attributable to minority equity interest		35,372	24,743	-	-
Loss attributable to members of the parent entity		(3,402,156)	(4,349,332)	(125,904)	(110,200)
Overall Operations					
Basic earnings per share (cents per share)	7	(2.3)	(3.13)		
Diluted earnings per share (cents per share)	7	(2.2)	(3.08)		

The accompanying notes form part of these financial statements

Phoslock Water Solutions Limited and Controlled Entities

ABN 88 099 555 290

Balance Sheet as at 30 June 2008

	Note	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	8	349,926	2,176,819	3,165	5,243
Trade and other receivables	9	471,876	283,811	-	-
Inventories	10	1,107,560	1,245,289	-	-
Other current assets	17	39,292	71,358	-	-
TOTAL CURRENT ASSETS		1,968,654	3,777,277	3,165	5,243
NON-CURRENT ASSETS					
Trade and other receivables	9	400,000	400,000	17,929,885	15,442,843
Investments accounted for using the equity method	11	30,806	34,941	-	-
Financial assets	13	-	-	4,668,029	4,647,929
Property, plant and equipment	15	695,744	843,552	-	-
Intangible assets	16	3,109,102	3,411,338	-	1,103,356
TOTAL NON-CURRENT ASSETS		4,235,652	4,689,831	22,597,914	21,194,128
TOTAL ASSETS		6,204,306	8,467,108	22,601,079	21,199,371
CURRENT LIABILITIES					
Trade and other payables	18	454,976	772,341	-	-
Financial liabilities	19	948,576	3,844	943,726	-
Short-term provisions	20	86,372	100,182	-	-
TOTAL CURRENT LIABILITIES		1,489,924	876,367	943,726	-
NON-CURRENT LIABILITIES					
Financial liabilities	19	26,239	-	-	-
Other long-term provisions	20	49,209	32,697	-	-
TOTAL NON-CURRENT LIABILITIES		75,448	32,697	-	-
TOTAL LIABILITIES		1,565,372	909,064	943,726	-
NET ASSETS		4,638,934	7,558,044	21,657,353	21,199,371
EQUITY					
Issued capital	21	24,977,235	24,458,037	24,977,235	24,458,037
Reserves	22	875,775	864,592	978,313	913,625
Retained earnings		(21,319,072)	(17,916,916)	(4,298,195)	(4,172,291)
Parent interest		4,533,938	7,405,713	21,657,353	21,199,371
Minority equity interest		104,996	152,331	-	-
TOTAL EQUITY		4,638,934	7,558,044	21,657,353	21,199,371

The accompanying notes form part of these financial statements

Statement of Changes in Equity for the period ended 30 June 2008

	Issued Share Capital	Accumulated Losses	Foreign Currency Translation Reserve	Option Reserve	Minority Equity Interests	Total
Consolidated Group	$	$	$	$	$	$
Balance at 1 July 2006	20,572,379	(13,567,584)	13,088	732,564	191,157	7,941,604
Loss attributable to members of parent entity	-	(4,349,332)	-	-	-	(4,349,332)
Loss attributable to minority shareholders	-	-	-	-	(24,743)	(24,743)
Shares issued during the year	4,033,500	-	-	-	-	4,033,500
Transaction costs	(147,842)	-	-	-	-	(147,842)
Adjustments from translation of foreign controlled entities	-	-	(62,121)	-	(14,083)	(76,204)
Option reserve on recognition of employee options expense	-	-	-	122,714	-	122,714
Option reserve on recognition of other issue of options	-	-	-	58,347	-	58,347
Balance at 30 June 2007	24,458,037	(17,916,916)	(49,033)	913,625	152,331	7,558,044
Shares issued during the year	540,900	-	-	-	-	540,900
Transaction costs	(21,702)	-	-	-	-	(21,702)
Loss attributable to members of parent entity	-	(3,402,156)	-	-	-	(3,402,156)
Loss attributable to minority shareholders	-	-	-	-	(24,778)	(24,778)
Adjustments from translation of foreign controlled entities	-	-	(53,505)	-	(22,557)	(76,062)
Option reserve on recognition of employee options expense	-	-	-	64,688		64,688
Balance at 30 June 2008	24,977,235	(21,319,072)	(102,538)	978,313	104,996	4,638,934

	Issued Share Capital	Accumulated Losses	Foreign Currency Translation Reserve	Option Reserve	Minority Equity Interests	Total
Parent Entity	$	$	$	$	$	$
Balance at 1 July 2006	20,572,379	(4,062,091)	-	732,564	-	17,242,852
Shares issued during the year	4,033,500	-	-	-	-	4,033,500
Transaction Costs	(147,842)	-	-	-	-	(147,842)
Loss attributable to members of parent entity	-	(110,200)	-	-	-	(110,200)
Option reserve on recognition of employee options expense	-	-	-	122,714	-	122,714
Option reserve on recognition of other issue of options	-	-	-	58,347	-	58,347
Balance at 30 June 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 employee options expense	-	-	-	64,688	-	64,688
Balance at 30 June 2008	24,977,235	(4,298,195)	-	978,313	-	21,657,353

The accompanying notes form part of these financial statements

Cash Flow Statement for the period ended 30 June 2008

	Note	Consolidated Group		Parent Entity	
		2008	2007	**2008**	2007
		$	$	**$**	$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		575,745	1,395,116	-	-
Interest received		55,679	87,785	-	-
Payments to suppliers and employees		(3,804,685)	(5,219,031)	(96)	(100)
Finance costs		(3,027)	(4,087)	-	-
Other Income		12,212	-	-	-
Income tax rebates		28,018	-	28,018	-
Net cash provided by (used in) operating activities	25a	(3,136,058)	(3,740,217)	27,922	(100)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		26,260	387,255	-	-
Purchase of property, plant and equipment		(37,229)	(261,705)	-	-
Purchase of investments		(20,000)	-	-	-
Purchase of other non-current assets		(27,104)	(146,438)	-	-
Net cash used in investing activities		(58,073)	(20,888)	-	-
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		500,900	4,033,500	1,400,900	4,033,500
Proceeds from issue of convertible notes		900,000	-	-	-
Repayment of borrowings		(5,762)	-	(1,406,296)	(3,888,194)
Transaction costs		(24,604)	(145,306)	(24,604)	(145,306)
Net cash provided by (used in) financing activities		1,370,534	3,888,194	(30,000)	-
Net increase in cash held		(1,823,597)	127,089	(2,078)	(100)
Cash at beginning of financial year		2,172,975	2,077,697	5,243	5,343
Effect of exchange rates on cash holdings in foreign currencies		232	(31,811)	-	-
Cash at end of financial year	8	349,610	2,172,975	3,165	5,243

The accompanying notes form part of these financial statements

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').

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 controllled are shown as a separate item in the consolidated financial report.

Business Combinations

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the purchase method. The purchase method requires an acquirer of the business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities and contingent liabilities to be determined as at acquisition date, being the date that control is obtained. Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination. Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate.

Goodwill is recognised initially at the excess of cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss.

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

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

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

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

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

Tax Consolidation

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

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

c. Inventories

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

d. Property, Plant and Equipment

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

Plant and equipment

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

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

Depreciation

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

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

Class of Fixed Asset	Depreciation Rates
Plant & Equipment	10 - 30 %
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 capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a diminishing value basis over the shorter of their estimated useful lives or the lease term. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

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. 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.

ii. 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.

iii. 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.

iv. Financial Liabilities

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

Fair value

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

Impairment

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

g. Impairment of Assets

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

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

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

h. Investments in Associates

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

i. Intangibles

Goodwill

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

Phoslock Licence Patents and trademarks

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

Research and development

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

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

j. Foreign Currency Transactions and Balances

Functional and presentation currency

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

Transaction and balances

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

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

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised 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 company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled.

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

Equity-settled compensation

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

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. Borrowing Costs

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

p. 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.

q. Comparative Figures

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

r. 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. No provision for impairment of goodwill or intangibles was recognised during the year.

The financial report was authorised for issue on 11 September 2008 by the board of directors.

Note 2 Revenue

	Note	Consolidated Group		Parent Entity	
		2008	2007	**2008**	2007
		$	$	**$**	$
Sales Revenue					
— sale of goods		721,927	1,033,040	-	-
Total Sales Revenue		721,927	1,033,040	-	-
Other Revenue					
— interest received	2(a)	56,805	87,931	-	
— royalties		-	25	-	-
Total Other Revenue		56,805	87,956	-	-
Total Sales Revenue and Other Revenue		778,732	1,120,996	-	-
Other Income					
— gain on disposal of property, plant and equipment		-	1,466	-	-
— foreign currency translation gains		55,350	-	-	-
— other income		7,397	372	-	-
Total Other Income		62,747	1,838	-	-
(a) Interest revenue from:					
— other persons		56,805	87,931	-	-
Total interest revenue		56,805	87,931	-	-

Note 3 Profit for the Year

	Consolidated Group		Parent Entity	
	2008	2007	**2008**	2007
	$	$	**$**	$
(a) Expenses				
Cost of sales	449,409	590,849	-	-
Finance costs:				
— Other persons	49,653	3,429	43,726	-
Total finance costs	49,653	3,429	43,726	-
Foreign currency translation losses / (gains)	-	12,717	-	-
Bad and doubtful debts:				
— trade receivables	13,128	8,234	-	-
Rental expense on operating leases				
— minimum lease payments	199,611	221,437	-	-
Loss/(gain) on disposal of property, plant and equipment	-	(1,466)	-	-
Depreciation of property plant and equipment	114,198	119,806	-	-
Amortisation of non-current assets			-	-
— research and development expenditure	7,860	7,000	-	-
— Phoslock licence, patents and trademarks	337,647	319,567	110,100	110,100
Total amortisation	345,507	326,567	110,100	110,100

Note 4 Income Tax Expense

	Consolidated Group		Parent Entity	
	2008	2007	**2008**	2007
	$	$	**$**	$
(a) The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax expense as follows:				
Prima facie tax payable on loss from ordinary activities before income tax at 30% (2007 30%)				
— consolidated group	(1,039,664)	(1,312,223)		
— parent entity			(46,177)	(33,060)
Add:				
Tax effect of:				
— non-deductible depreciation and amortisation	95,062	89,130	33,030	33,030
— other non-allowable items	1,209	3,128	-	-
— share options expensed during year	19,406	35,651	-	-
— DTA's not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(b) occur	916,746	1,199,950	13,147	30
	(7,241)	15,637	-	-
Less:				
Tax effect of:				
— share of net profits of associates netted directly	(7,241)	(3,383)	-	-
— other tax concessions & deductible amounts	28,018	19,020	28,018	
Income tax attributable to entity	(28,018)	-	(28,018)	-
(b) Potential future income tax benefits attributable to tax losses carried forward not brought to account	5,341,572	4,494,585	158,233	145,087

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	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

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

(b) Options and Rights Holdings

Number of Options Held by Key Management Personnel

	Balance 1.07.2007	Granted as Compensation	Options Exercised*	Net Change Other*	Balance 30.06.2008	Total Vested 30.06.2008	Total Exercisable 30.06.2008	Total Unexercisable 30.06.2008
Dr David Garman	900,000	1,000,000	(400,000)	-	1,500,000	500,000	500,000	1,000,000
Mr Robert Schuitema	7,000,000	-	-	-	7,000,000	7,000,000	7,000,000	-
Mr Russell Brown	500,000	-	-	-	500,000	500,000	500,000	-
The Hon Pam Allan	-	500,000	-	-	500,000	-	-	500,000
Mr Colin Upcroft	1,490,000	1,000,000	(500,000)	(490,000)	1,500,000	500,000	500,000	1,000,000
Mr Eddie Edmunds	2,350,000	-	-	-	2,350,000	1,350,000	1,350,000	1,000,000
Mr Nigel Traill	1,800,000	1,000,000	(800,000)	(500,000)	1,500,000	500,000	500,000	1,000,000
Dr Sarah Groves	100,000	300,000	-	-	400,000	100,000	100,000	300,000
Mr Andrew Winks	1,500,000	300,000	-	(1,000,000)	800,000	500,000	500,000	300,000
Total	15,640,000	4,100,000	(1,700,000)	(1,990,000)	16,050,000	10,950,000	10,950,000	5,100,000

The Net Change Other column above includes those options that have been forfeited by holders.

(c) Shareholdings

Number of Shares held by Key Management Personnel

	Balance 1.07.2007	Received as Compensation	Options Exercised	Net Change Other*	Balance 30.06.2008
Key Management Personnel					
Dr David Garman	400,000	-	400,000	-	800,000
Mr Robert Schuitema	2,400,000	-	-	108,017	2,508,017
Mr Russell Brown	-	-	-	-	-
The Hon. Pam Allan	-	-	-	-	-
Mr Colin Upcroft	10,000	-	500,000	(250,000)	260,000
Mr Eddie Edmunds	-	-	-	-	-
Mr Nigel Traill	2,300,529	-	800,000	(800,000)	2,300,529
Dr Sarah Groves	-	-	-	-	-
Mr Andrew Winks	-	-	-	-	-
Total	5,110,529	-	1,700,000	(941,983)	5,868,546

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

Note 6 Auditors' Remuneration

	Consolidated Group		Parent Entity	
	2008	2007	**2008**	2007
	$	$	**$**	$
Remuneration of the auditor of the parent entity for:				
— auditing or reviewing the financial report	58,165	53,675	-	-
Remuneration of other auditors of subsidiaries for:				
— auditing or reviewing the financial report of subsidiaries	8,099	7,492	-	-

Note 7 Earnings per Share

		Consolidated Group	
		2008	2007
		$	$
(a)	Reconciliation of earnings to profit or loss		
	Profit/(Loss)	(3,437,528)	(4,374,075)
	Profit/(Loss) attributable to minority equity interest	35,372	24,743
	Earnings used to calculate basic EPS	(3,402,156)	(4,349,332)
	Earnings used in the calculation of dilutive EPS	(3,358,430)	(4,349,332)
(b)	Reconciliation of earnings to loss from continuing operations		
	Loss from continuing operations	(3,437,528)	(4,374,075)
	Loss attributable to minority equity interest in respect of continuing operations	35,372	24,743
	Earnings used to calculate basic EPS from continuing operations	(3,402,156)	(4,349,332)
	Earnings used in the calculation of dilutive EPS from continuing operations	(3,358,430)	(4,349,332)
		No.	No.
(c)	Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	149,606,935	138,962,332
	Weighted average number of options outstanding	-	2,200,000
	Weighted average number of convertible instruments outstanding	2,461,613	-
	Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	152,068,548	141,162,332

(d) Classification of securities

Options remaining unconverted at year-end are not included in basic and dilutive EPS as the exercise of the options is contingent upon future events.

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

Note 8 Cash and Cash Equivalents

		Consolidated Group		Parent Entity	
	Note	**2008**	2007	**2008**	2007
		$	$	**$**	$
Cash at bank and in hand		279,360	2,080,697	3,165	5,243
Short-term bank deposits		70,566	96,122	-	-
		349,926	2,176,819	3,165	5,243

The effective interest rate on short-term bank deposits was 7.25% (2007: 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:

	Note	Consolidated 2008	Consolidated 2007	Parent 2008	Parent 2007
Cash and cash equivalents		349,926	2,176,819	3,165	5,243
Bank overdrafts	19	(316)	(3,844)	-	-
		349,610	2,172,975	3,165	5,243

Note 9 Trade and Other Receivables

	Note	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
CURRENT					
Trade receivables		348,672	89,736	-	-
Provision for impairment of receivables	9(a)	-	(8,000)	-	-
		348,672	81,736	-	-
Other receivables		123,204	202,075	-	-
		471,876	283,811	-	-
NON-CURRENT					
Trade receivables		400,000	400,000	-	-
Amounts receivable from:					
— wholly owned entities		-	-	17,929,885	15,442,843
		400,000	400,000	17,929,885	15,442,843

(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.

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

	Opening Balance 1.7.2007 $	Charge for the Year $	Amounts Written Back $	Closing Balance 30.6.2008 $
Consolidated Group				
Current trade receivables	8,000	-	(8,000)	-

Note 10 Inventories

	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
CURRENT				
At cost				
Raw materials and stores	113,838	100,453	-	-
Finished goods	861,435	1,144,836	-	-
	975,273	1,245,289	-	-
At net realisable value				
Finished goods	132,287	-	-	-
	132,287	-	-	-
	1,107,560	1,245,289	-	-

Note 11 Investments Accounted for Using the Equity Method

	Note	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Associated companies	12a	30,806	34,941	-	-
		30,806	34,941	-	-

Note 12 Associated Companies

Interests are held in the following associated companies

Name	Principal Activities	Country of Incorporation	Shares	Ownership Interest 2008 $	Ownership Interest 2007 $	Carrying Amount of Investment 2008 $	Carrying Amount of Investment 2007 $
Unlisted:							
Phoslock Africa Pty Ltd	Phoslock sales	South Africa	Ord	50	50	30,806	34,491
						30,806	34,491

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

	Note	Consolidated Group 2007 $	Consolidated Group 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Balance at beginning of the financial year		34,941	-	-	-
Add: New investments during the year		-	46,217	-	-
Share of associated company's profit after income tax	12b	(4,135)	(11,276)	-	-
Balance at end of the financial year		30,806	34,941	-	-
(b) Equity accounted profits of associates are broken down as follows:					
Share of associate's profit before income tax expense		(4,135)	(11,276)	-	-
Share of associate's income tax expense		-	-	-	-
Share of associate's profit after income tax		(4,135)	(11,276)	-	-
(c) Summarised Presentation of Aggregate Assets, Liabilities and Performance of Associates					
Current assets		28,692	76,248	-	-
Non-current assets		43,922	-	-	-
Total assets		72,614	76,248	-	-
Current liabilities		11,001	6,365	-	-
Non-current liabilities		-	-	-	-
Total liabilities		11,001	6,365	-	-
Net assets		61,613	69,883	-	-
Revenues		(3,043)	26,352	-	-
Profit after income tax of associates		(8,270)	(22,553)	-	-

(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 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
NON CURRENT					
Available-for-sale financial assets	13a	-	-	4,668,029	4,647,929
		-	-	4,668,029	4,647,929

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

Non Current				
Unlisted investments, at cost				
— shares in controlled entities	-	-	4,668,029	4,647,929
Total non-current available-for-sale financial assets	-	-	4,668,029	4,647,929

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

Note 14 Controlled Entities

(a) Controlled Entities Consolidated

	Country of Incorporation	Percentage Owned (%)* 2008	Percentage Owned (%)* 2007
Subsidiaries of Phoslock Water Solutions Limited:			
Phoslock Pty Ltd	Australia	100	100
Phoslock Technologies Pty Ltd	Australia	100	100
Yunnan Jinxingyan Environmental Conservational Consultative Co Ltd	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

* Percentage of voting power is in proportion to ownership

Note 15 Property, Plant and Equipment

	Consolidated Group		Parent Entity	
	2008	2007	**2008**	2007
	$	$	**$**	$
Plant and equipment:				
At cost	1,287,865	1,235,128	-	-
Accumulated depreciation	(527,446)	(345,749)	-	-
Exchange differences	(64,675)	(45,827)	-	-
	695,744	843,552	-	-

(a) Movements in Carrying Amounts

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

	Plant and Equipment	Total
	$	$
Consolidated Group:		
Balance at 1 July 2006	903,002	903,002
Additions	226,001	226,001
Disposals	(55,368)	(55,368)
Depreciation expense	(184,256)	(184,256)
Exchange differences	(45,827)	(45,827)
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 30 June 2008	695,744	695,744

Note 16 Intangible Assets

	Consolidated Group		Parent Entity	
	2008	2007	**2008**	2007
	$	$	**$**	$
Goodwill				
Cost	401,977	401,977	-	-
Accumulated impaired losses	(342,584)	(342,584)	-	-
Net carrying value	59,393	59,393	-	-
Trademarks and licences				
Cost	4,105,211	4,060,018	1,266,214	1,266,214
Accumulated amortisation and impairment	(1,110,709)	(773,061)	(272,958)	(162,858)
Intercompany transfers	-	-	(993,256)	-
Exchange differences	(14,542)	(12,621)	-	-
Net carrying value	2,979,960	3,274,336	-	1,103,356
Development costs				
Cost	323,740	323,740	-	-
Accumulated amortisation and impairment	(253,991)	(246,131)	-	-
Net carrying value	69,749	77,609	-	-
Total intangibles	3,109,102	3,411,338	-	1,103,356

Consolidated Group:

	Goodwill $	Trademarks & Licences $	Development Costs $
Year ended 30 June 2007			
Balance at the beginning of year	59,393	3,452,820	78,649
Additions	-	153,704	5,960
Amortisation charge	-	(319,567)	(7,000)
Exchange differences	-	(12,621)	-
	59,393	3,274,336	77,609
Year ended 30 June 2008			
Balance at the beginning of year	59,393	3,274,336	77,609
Additions	-	45,193	-
Amortisation charge	-	(337,647)	(7,860)
Exchange differences	-	(1,922)	-
Closing value at 30 June 2008	59,393	2,979,960	69,749

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. Goodwill has an infinite life.

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 10%.

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

Note 17 Other Assets

	Consolidated Group		Parent Entity	
	2008 $	2007 $	**2008 $**	2007 $
CURRENT				
Prepayments	39,292	71,358	-	-
	39,292	71,358	-	-

Note 18 Trade and Other Payables

	Consolidated Group		Parent Entity	
	2008 $	2007 $	**2008 $**	2007 $
CURRENT				
Unsecured liabilities				
Trade payables	247,927	534,425	-	-
Sundry payables and accrued expenses	207,049	237,916	-	-
	454,976	772,341	-	-

For personal use only

Note 19 Financial Liabilities

	Note	Consolidated Group		Parent Entity	
		2008	2007	**2008**	2007
		$	$	**$**	$
CURRENT					
Unsecured liabilities					
Bank overdrafts		316	3,844	-	-
Lease liability	23	4,534	-	-	-
Convertible Notes	19(a)	943,726	-	943,726	-
		948,576	3,844	943,726	-
NON-CURRENT					
Unsecured liabilities					
Lease liability	23	26,239	-	-	-
		26,239	-	-	-

(a) Convertible Notes

Convertible 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% PA. 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.

Note 20 Provisions

	Consolidated Group		Parent Entity	
	2008	2007	**2008**	2007
	$	$	**$**	$
CURRENT				
Employee Entitlements				
Opening balance at 1 July 2007	100,182	132,373	-	-
Additional provisions	81,406	65,513	-	-
Amounts used	(95,216)	(97,704)	-	-
Balance at 30 June 2008	86,372	100,182	-	-
NON CURRENT				
Employee Entitlements				
Opening balance at 1 July 2007	32,697	32,057	-	-
Additional provisions	16,512	12,070	-	-
Amounts used	-	(11,430)	-	-
Balance at 30 June 2008	49,209	32,697	-	-
Analysis of Total Provisions				
Current	86,372	100,182	-	-
Non-current	49,209	32,697	-	-
	135,581	132,879	-	-

Provision for Long-term Employee Benefits

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

Note 21 Issued Capital

	Consolidated Group		Parent Entity	
	2008	2007	**2008**	2007
	$	$	**$**	$
150,633,784 (2007: 148,233,784) fully paid ordinary shares	24,977,235	24,458,037	24,977,235	24,458,037
	24,977,235	24,458,037	24,977,235	24,458,037

	Consolidated Group / Parent Entity			
	2008	**2008**	2007	2007
	No.	$	No	$
(a) Ordinary Shares				
At the beginning of reporting period	148,233,784	24,458,037	130,323,784	20,572,379
Shares issued during year				
— 14 December 2006	-	-	500,000	111,320
— 19 December 2006	-	-	12,800,000	2,817,040
— 19 January 2007	-	-	480,000	106,868
— 7 February 2007	-	-	520,000	110,240
— 8 February 2007	-	-	500,000	106,000
— 13 February 2007	-	-	1,000,000	212,000
— 21 February 2007	-	-	500,000	106,372
— 7 March 2007	-	-	100,000	19,618
— 12 March 2007	-	-	500,000	98,080
— 19 April 2007	-	-	500,000	98,080
— 24 April 2007	-	-	500,000	98,080
— 27 June 2007	-	-	10,000	1,960
— 31 August 2007	100,000	25,000	-	-
— 29 November 2007	2,200,000	500,900	-	-
— 30 June 2008	100,000	15,000	-	-
Transaction Costs	-	(21,702)	-	-
At reporting date	150,633,784	24,977,235	148,233,784	24,458,037

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.

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 2008 and 30 June 2007 are as follows:

		Consolidated Group		Parent Entity	
	Note	**2008**	2007	**2008**	2007
Total borrowings	18, 19	1,429,791	776,185	943,726	-
Less cash and cash equivalents	8	(349,926)	(2,176,819)	(3,165)	(5,243)
Net debt		1,079,865	(1,400,634)	940,561	(5,243)
Total equity		4,638,934	7,558,044	21,657,353	21,199,371
Total capital		5,718,799	6,157,410	22,597,914	21,194,128
Gearing ratio		19%	-	4%	-

Note 22 Reserves

(a) Foreign Currency Translation Reserve

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

(b) Option Reserve

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

Note 23 Capital and Leasing Commitments

		Consolidated Group		Parent Entity	
	Note	**2008**	2007	**2008**	2007
		$	$	**$**	$
(a) Finance Lease Commitments					
Payable — minimum lease payments					
— not later than 12 months		8,789	-	-	-
— between 12 months and 5 years		26,639	-	-	-
— greater than 5 years		-	-	-	-
Minimum lease payments		35,428	-	-	-
Less future finance charges		4,655	-		-
Present value of minimum lease payments	19	40,083	-	-	-

The finance lease, on a motor vehicle, commenced in 2007, and has a payment period of 4 years with an option to refinance at the end.

(b) Operating Lease Commitments

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

Payable — minimum lease payments				
— not later than 12 months	164,379	237,701	-	-
— between 12 months and 5 years	291,412	391,739	-	-
— greater than 5 years	14,167	70,833	-	-
	469,958	700,273	-	-

Lease 1 is a non-cancellable lease with a three year term. 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-cancellable lease with a three year term. 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 3 is a non-cancellable lease with an eight year term. Rent is payable monthly in advance. Contingent rental provisions within the lease agreement provide for an annula rental increase by negotiation. Renewal options are available by negotiation.The lease contains no provision for subletting of lease areas.

Lease 4 is a non-cancellable lease with a thirty nine month term. 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 initial term for an additional period of three years. The lease allows for subletting of all leased areas.

Note 24 Segment Reporting

	Environmental Technologies		Bentonite Mining		Consolidated Group	
	2008	2007	**2008**	2007	**2008**	2007
	$	$	**$**	$	**$**	$
Primary Reporting — Business Segments						
REVENUE						
External Sales	721,927	1,033,040	-	25	721,927	1,033,065
Other segments	57,715	-	5,032	-	62,747	-
Total sales revenue	779,642	1,033,040	5,032	25	784,674	1,033,065
Unallocated revenue					56,805	89,769
Total revenue					841,479	1,122,834
RESULT						
Segment result	(2,447,574)	(3,299,116)	5,032	25	(2,442,542)	(3,299,091)
Unallocated expenses net of unallocated revenue					(1,023,004)	(1,074,984)
Finance Costs					49,653	3,429
Share of net profits of associates and joint venture entities					(4,135)	(11,276)
Loss before income tax					(3,465,546)	(4,374,075)
Income tax benefit					28,018	-
Loss after income tax					(3,437,528)	(4,374,075)
ASSETS						
Segment assets	5,671,506	7,974,866	456,697	404,252	6,128,203	8,379,118
Unallocated assets					76,103	87,990
Total assets					6,204,306	8,467,108
LIABILITIES						
Segment liabilities	1,392,848	749,169	-	-	1,392,848	749,169
Unallocated liabilities					172,524	159,895
Total liabilities					1,565,372	909,064
OTHER						
Investments accounted for using the equity method	30,806	34,941		-	30,806	34,941
Acquisitions of non-current segment assets	105,731	385,665		-	105,731	385,665
Depreciation and amortisation of segment assets	531,428	510,823		-	531,428	510,823

Secondary Reporting — Geographical Segments

	Segment Revenues from External Customers		Carrying Amount of Segment Assets		Acquisitions of Non-current Segment Assets	
	2008	2007	**2008**	2007	**2008**	2007
	$	$	**$**	$	**$**	$
Geographical location:						
Australia	233,752	644,000	5,231,427	7,229,720	98,866	283,391
China	-	-	890,727	1,042,611	6,262	48,746
Europe	382,279	229,000	-	31,260	-	20,705
United Kingdom	80,463	128,146	82,154	163,517	603	32,823
Other Countries	25,433	31,894	-	-	-	-
	721, 927	1,033,040	6,204,308	8,467,108	105,731	385,665

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 major product is a water treatment technology known as Phoslock. The Company also holds the domestic large water authority licence for distribution of an evaporation retardent branded Watersavr.

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

Geographical segments

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

Note 25 Cash Flow Information

	Consolidated Group		Parent Entity	
	2008	2007	**2008**	2007
	$	$	**$**	$
(a) Reconciliation of Cash Flow from Operations with Profit after Income Tax				
Loss after income tax	(3,437,528)	(4,374,075)	(125,904)	(110,200)
Cash flows excluded from profit attributable to operating activities				
Non-cash flows in profit				
Amortisation	345,507	331,047	110,100	110,100
Depreciation	185,921	179,775	-	-
Other	(13,215)	-	-	-
Net gain/(loss) on disposal of property, plant and equipment	-	1,466	-	-
Net loss on disposal of investments	20,000	-	-	-
Share options expensed	64,688	181,061	-	-
Share issues expensed	40,000	-	-	-
Share of associated companies net loss after income tax	4,135	11,276	-	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
(Increase)/decrease in trade and term receivables	(208,036)	309,678	-	-
(Increase)/decrease in prepayments	32,068	3,971	-	-
(Increase)/decrease in inventories	157,783	(78,698)	-	-
Increase/(decrease) in trade payables and accruals	(330,083)	(286,560)	43,726	-
Increase/(decrease) in provisions	2,702	(19,158)	-	-
Cash flow from operations	(3,136,058)	(3,740,217)	27,922	(100)

Note 26 Share-based Payments

The following share-based payment arrangements existed at 30 June 2008.

During the year share options were issued to key management personnel as remuneration incentives. The options hold no voting or dividend rights and are not transferable. Details of the options issued are as follows:

Number of Options	Grant Date	Exercise Price	Expiry Date
50,000	15.08.2006	$0.20	30.12.2008
250,000	29.11.2007	$0.40	1.12.2009
250,000	29.11.2007	$0.50	1.12.2010
1,300,000	18.12.2007	$0.40	1.12.2009
1,300,000	18.12.2007	$0.50	1.12.2010
500,000	11.4.2008	$0.40	31.12.2010
500,000	11.4.2008	$0.50	31.12.2011

On 15 April 2008, the Company's European licencee was granted 200,000 share options to take up ordinary shares at an exercise price of $0.25 each. The options were issued as consideration for technical services provided and can be exercised on or before 30 June 2010. The options hold no voting or dividend rights and are not transferable.

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			
	2008		2007		**2008**		2007	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding at the beginning of the year	28,437,913	0.28	30,147,913	0.25	28,437,913	0.28	30,147,913	0.25
Granted	5,400,000	0.44	3,400,000	0.45	5,400,000	0.44	3,400,000	0.45
Forfeited	(1,375,000)	0.37	-	-	(1,375,000)	0.37	-	-
Exercised	(2,200,000)	0.23	(5,110,000)	0.21	(2,200,000)	0.23	(5,110,000)	0.21
Expired	(2,940,000)	0.20	-		(2,940,000)	0.20	-	
Outstanding at year-end	27,322,913	0.32	28,437,913	0.28	27,322,913	0.32	28,437,913	0.28
Exercisable at year-end	17,775,000	0.29	21,040,000	0.25	17,775,000	0.29	21,040,000	0.25

There were 2,200,000 options exercised during the year ended 30 June 2008. These options had a weighted average share price of $0.28 at exercise date.

The options outstanding at 30 June 2008 had a weighted average exercise price of $0.32 and a weighted average remaining contractual life of 1.51 years. Exercise prices range from $0.20 to $0.60 in respect of options outstanding at 30 June 2008.

The weighted average fair value of the options granted during the year was $0.016

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

Weighted average exercise price	$0.44
Weighted average life of the option	2.13 years
Underlying share price	$0.26
Expected share price volatility	30%
Risk free interest rate	5.34%

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 $64,688 (2007:$122,714) and relates, in full, to equity-settled share-based payment transactions.

Note 27 Events After the Balance Sheet Date

On 12th August 2008 the Company issued 9,561,817 fully paid shares in the parent entity to raise funds of $1,051,800 for working capital.

Note 28 Related Party Transactions

	Note	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.					
Transactions with related parties:					
(a) Associated Companies					
Sale of Phoslock granules by Phoslock Pty Ltd to Phoslock Africa Pty Ltd		16,643	-	-	-

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 is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk.

Interest rate risk

The consolidated groups 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 groups debt exposure is not subject to fluctuating interest rates.

Foreign currency risk

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

Liquidity risk

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

Credit risk

Credit risk is the exposure to financial loss to the consolidated entity if a customer fails to meet its contractual obligation and arises from the consolidated entitys 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 monthly 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.

(b) Financial Instruments

(i) Financial Instrument Composition and Maturity Analysis

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

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing Within 1 Year		Fixed Interest Rate Maturing 1 to 5 years	
	%		$		$		$	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
Consolidated Group Financial Assets:								
Cash and cash equivalents	4.5	4.95	279,360	2,080,697	70,566	96,122	-	-
Receivables			-	-	-	-	-	-
Total Financial Assets			279,360	2,080,697	70,566	96,122	-	-

	Fixed Interest Rate Over 5 yearsl		Non - Interest Bearing		Total	
	$		$		$	
	2008	2007	**2008**	2007	**2008**	2007
Financial Assets:						
Cash and cash equivalents	-	-	-	-	349,926	2,176,819
Receivables	-	-	871,876	691,811	871,876	691,811
Total Financial Assets	-	-	871,876	691,811	1,221,802	2,868,630

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing Within 1 Year		Fixed Interest Rate Maturing 1 to 5 years	
	%		$		$		$	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
Consolidated Group Financial Liabilities:								
Bank overdrafts	8.25	8.25	316	3,844	-	-	-	-
Convertible Notes	12	-	-	-	120,000	-	1,060,000	-
Trade and sundry payables			-	-	-	-	-	-
Lease liabilities			-	-	4,534	-	26,239	-
Total Financial Liabilities			316	3,844	124,534	-	1,086,239	-

	Fixed Interest Rate Over 5 yearsl		Non - Interest Bearing		Total	
	$		$		$	
	2008	2007	**2008**	2007	**2008**	2007
Financial Liabilities:						
Bank overdrafts	-	-	-	-	316	3,844
Convertible Notes	-	-	-	-	1,180,000	-
Trade and sundry payables	-	-	454,976	772,341	454,976	772,341
Lease liabilities	-	-	-	-	30,773	-
Total Financial Liabilities	-	-	454,976	772,341	1,666,065	776,185

	Weighted Average Effective Interest Rate %		Floating Interest Rate $		Fixed Interest Rate Maturing Within 1 Year $		Fixed Interest Rate Maturing 1 to 5 years $	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
Parent Entity Financial Assets:								
Cash and cash equivalents			-	-	-	-	-	-
Receivables			-	-	-	-	-	-
Total Financial Assets			-	-	-	-	-	-

	Fixed Interest Rate Over 5 yearsl $		Non - Interest Bearing $		Total $	
	2008	2007	**2008**	2007	**2008**	2007
Financial Assets:						
Cash and cash equivalents	-	-	3,165	5,243	3,165	5,243
Receivables			17,929,885	15,442,843	17,929,885	15,442,843
Investments			4,668,029	4,647,929	4,668,029	4,647,929
Total Financial Assets	-	-	22,601,079	20,096,015	22,601,079	20,096,015

	Weighted Average Effective Interest Rate %		Floating Interest Rate $		Fixed Interest Rate Maturing Within 1 Year $		Fixed Interest Rate Maturing 1 to 5 years $	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
Parent Entity Financial Liabilities:								
Convertible Notes	12	-	-	-	120,000	-	1,060,000	-
Total Financial Liabilities			-	-	120,000	-	1,060,000	-

	Fixed Interest Rate Over 5 yearsl $		Non - Interest Bearing $		Total $	
	2008	2007	**2008**	2007	**2008**	2007
Financial Liabilities:						
Convertible Notes	-	-	-	-	1,180,000	-
Total Financial Liabilities	-	-	-	-	1,180,000	-

	Consolidated Group		Parent Entity	
	2008	2007	**2008**	2007
	$	$	**$**	$
Trade and sundry payables are expected to be paid as follows:				
Less than 6 months	454,976	772,341	-	-
6 months to 1 year	-	-	-	-
1-5 years	-	-	-	-
Over 5 years	-	-	-	-
	454,976	772,341	-	-

(ii) Net Fair Values

The net fair values of other assets and liabiliites approximate their carrying value. No financial assets or liabilities are readily tradable on organised 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 2008, 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	
	2008	2007	**2008**	2007
	$	$	**$**	$
Change in profit				
– Increase in interest rate by 1 %	25,917	28,358	-	-
– Decrease in interest rate by 1%	(9,456)	(15,864)	-	-
Change in equity				
– Increase in interest rate by 1 %	25,917	28,358	-	-
– Decrease in interest rate by 1%	(9,456)	(15,864)	-	-

Foreign Currency Risk and Sensitivity Analysis

As at 30 June 2008, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the US Dollar, with all other variables remaining constant is as follows:

Change in profit				
– Improvement in AUD to USD by 10%	40,855	53,713	-	-
– Decline in AUD to USD by 10%	(52,528)	(79,368)	-	-
Change in equity				
– Improvement in AUD to USD by 10%	40,855	53,713	-	-
– Decline in AUD to USD by 10%	(52,528)	(79,368)	-	-

As at 30 June 2008, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the Euro, with all other variables remaining constant is as follows:

Change in profit				
– Improvement in AUD to Euro by 10%	(34,234)	(20,069)	-	-
– Decline in AUD to Euro by 10%	41,703	24,529	-	-
Change in equity				
– Improvement in AUD to Euro by 10%	(34,234)	(20,069)	-	-
– Decline in AUD to Euro by 10%	41,703	24,529	-	-

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

Note 30 Change In Accounting Policy

a. The following Australian Accounting Standards have been issued or amended and are applicable to the parent and consolidated group but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date.

AASB Amendment	Standard Affected	Outline of Amendment	Application date of the standard	Application date for group
AASB 2007-3 Amendments to Australian Accounting Standards	AASB 5: Non-current Assets Held for Sale and AASB 6: Exploration for and Evaluation of Mineral AASB 102: Inventories AASB 107: Cash Flow Statements AASB 119: Employee Benefits AASB 127: Consolidated and Separate Financial Statements AASB 134: Interim Financial Reporting AASB 136: Impairment of Assets AASB 1023: General Insurance Contracts AASB 1038: Life Insurance Contracts	The disclosure requirements of AASB 114: Segment Reporting have been replaced due to the issuing of AASB 8: Segment Reporting in February 2007. These amendments will involve changes to segment reporting disclosures within the financial report. However, it is anticipated there will be no direct impact on recognition and measurement criteria amounts included in the financial report.	1 Jan 2009	1 July 2009
AASB 8 Operating Segments	AASB 114: Segment Reporting	As above.	1 Jan 2009	1 July 2009
AASB 2007-6 Amendments to Australian Accounting Standards	AASB 1: First time adoption of AIFRS AASB 101: Presentation of Financial Statements AASB 107: Cash Flow Statements AASB 111: Construction Contracts AASB 116: Property, Plant and Equipment AASB 138: Intangible Assets	The revised AASB 123: Borrowing Costs issued in June 2007 has removed the option to expense all borrowing costs. This amendment will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. However, there will be no direct impact to the amounts included in the financial group as they already capitalise borrowing costs related to qualifying assets.	1 Jan 2009	1 July 2009
AASB 123 Borrowing Costs	AASB 123: Borrowing Costs	As above.	1 Jan 2009	1 July 2009
AASB 2007-8 Amendments to Australian Accounting Standards	AASB 101: Presentation of Financial Statements	The revised AASB 101: Presentation of Financial Statements issued in September 2007 requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity.	1 Jan 2009	1 July 2009
AASB 101	AASB 101: Presentation of Financial Statements	As above.	1 Jan 2009	1 July 2009

Note 31 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

Directors' Declaration

The directors of the Company declare that:

1. the financial statements and notes, as set out on pages 23 to 52, 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 2008 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 each 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 directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Director

Dr David Garman

Director

Mr Robert Schuitema

Dated this 11th day of September 2008

Phoslock application for treatment of recycled water ponds

Independent Audit Report

To the members of Phoslock Water Solutions Limited:

Report on the Financial Report

We have audited the accompanying financial report of Phoslock Water Solutions Limited (the Company), which comprises the balance sheets as at 30 June 2008, and the income statements, statements of changes in equity and cash flow statements for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Independence

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

Auditor's Opinion

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

a. giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 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 3-4 of the directors' report for the year ended 30 June 2008. 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 2008, complies with section 300A of the Corporations Act 2001.

WHK Horwath

WHK HORWATH

D W LANGDON

Principal

Brisbane, 12 September 2008

Liability limited by a scheme approved under Professional Standards Legislation.

Shareholder Information

The shareholder information set out below was applicable at 16 October 2008.

Distribution of Shareholders

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

Category of holding	Number	Number of shares
1 – 1,000	60	20,934
1,001 – 5,000	214	715,073
5,001 – 10,000	248	2,199,696
10,001 – 100,000	659	26,063,976
100,001 shares and over	241	136,593,734
	1,422	165,593,413

b. There are 213 shareholders with less than a marketable parcel of shares.

c. There are two substantial shareholders in the Company's Register of Substantial Shareholders as at 15 October 2008 being:

Name	Number of shares held
Link Traders (Aust) Pty Ltd	18,359,398
Newvest Pty Ltd	8,358 ,811

Unquoted Securities

As at 16 October 2008 there were 31,988,365 options unquoted as follows:

Options

Number of Options	Number of Holders
31,988,365	120

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

Name	Number of options held
Sail Ahead Pty Ltd	7,000,000

Voting Rights

At a general meeting of shareholders:

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

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

Twenty Largest Shareholders

As at 23 October 2008 the twenty largest holders of ordinary shares are listed below:

Name		No of Shares Held	% of Shares Held
1	Link Traders Pty Ltd	18,359,398	11.05%
2	Newvest Pty Ltd	8,358,811	5.03%
3	Ludgate Environmental Fund	5,000,000	3.01%
4	CSIRO	3,700,000	2.23%
5	Paul & Lorraine Cayzer	3,509,669	2.11%
6	The Australian National University	3,454,545	2.08%
7	Bob Bell & Giovanni Filippo	3,139,781	1.89%
8	WB Nominees Pty Ltd	2,956,818	1.78%
9	Nigel Traill	2,653,636	1.60%
10	Sail Ahead Pty Ltd	2,547,798	1.54%
11	First Manhattan Securities Pty Ltd	2,537,164	1.53%
12	Agio Capital Corporation Ltd	2,509,742	1.51%
13	National Nominees Ltd	1,800,000	1.08%
14	Sahib Nominees Pty Ltd	1,682,600	1.01%
15	David Colbran	1,679,364	1.01%
16	Fraser Enterprises Pty Ltd	1,697,164	1.02%
17	Sijoclo Pty Ltd	1,500,000	0.90%
18	Quizette Pty Ltd	1,406,000	0.85%
19	Mcha Pty Ltd	1,400,000	0.84%
20	Fosters Advertising & Marketing Enterprises	1,376,273	0.83%
Total		**71,268,763**	**43%**
Total Shares Issued		**165,593,413**	**100%**