

**PHOSLOCK WATER SOLUTIONS LIMITED  
AND CONTROLLED ENTITIES**

**ABN: 88 099 555 290**

**Annual Financial Report For The Year Ended  
30 June 2007**

# PHOSLOCK WATER SOLUTIONS LIMITED AND CONTROLLED ENTITIES

**30 June 2007**

**ABN: 88 099 555 290**

<b>CONTENTS</b>	<b>Page</b>
Directors' Report	1
Auditor's Independence Declaration	8
Income Statement	9
Balance Sheet	10
Statement of Changes in Equity	11
Cash Flow Statement	12
Notes to the Financial Statements	13
Directors' Declaration	29
Independent Audit Report	30

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

Your directors present their report on the Company and its controlled entities for the financial year ended 30 June 2007.

**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  
Mr Brett Crowley (retired 9/1/2007)  
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 \$4,349,332 (2006: (\$3,640,320)).

**Dividends Paid or Recommended**

No dividends have been paid or declared for payment in relation to the financial year ended 30 June 2007 (2006: \$Nil).

**Review of Operations**

Sales and earnings results for the year reflect the provision of resources necessary to support the projected significant revenue growth of the Company.

Phoslock Water Solutions (PWS) made significant progress during the year commercialising its core product, Phoslock. The 2007 financial year was the second full year in which Phoslock has been available for sale. By June 2007, PWS and its licensees had completed over 120 applications in 20 countries. A number of these projects were 'firsts' for PWS. A portion of these applications were pilot projects for larger future projects.

Phoslock is still a relatively new product. The sales process for larger projects is very extensive and time consuming. Pilot projects are necessary to give prospective customers confidence that the product does what it is intended to. The results of the pilot projects have been extremely good and the results are giving customers the confidence to commit to larger projects. By year end PWS was very well positioned on eight large future projects in seven different countries ranging from 100 tons to 6,000 tons. PWS's pipeline of future applications is approx 12,000 tons representing potential future sales in excess of A\$25 million.

PWS's results for the 2007 financial year include significant marketing and licensee development costs, research & development (which is fully expensed each year), amortization costs associated with the company's intellectual property portfolio and a large one-off termination payment for a senior employee. People costs represent approx 40% of total expenditure. PWS is building a business in which it expects to sell 20,000 - 30,000 tons per annum (sales revenue of A\$40m - A\$60m; EBIT of A\$15-25m) of Phoslock products on a sustainable basis. The up front costs of developing a global business are expected to be recouped quickly as the Phoslock business grows with more applications. Over the next 12 months, PWS is scheduled to undertake some major projects already in our pipeline. Success on these projects will be the catalyst to opening up these markets for a large number of future projects.

The number of large water bodies around the world experiencing blue green algae and other eutrophication problems is rising exponentially each year. When Phoslock becomes an accepted solution to blue green algae and eutrophication problems, the demand for Phoslock products will be enormous. At the same time, PWS is seeing more tangible government support to address these issues.

Major developments in the business segments are detailed below:

**Production:**

Phoslock is manufactured at the company's 71% 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 currently run on a campaign basis as short term demand is not sufficient to run the plant on a full time basis. The joint venture can ramp up production to meet larger orders at very short notice.

**Technical:**

Additional senior resources have been added to the technical function during the year. PWS's technical group is now located at its head office in northern Sydney. Major projects include improvements to the Phoslock production process, product QA and QWC, broadening the applicability of Phoslock to a wider range of applications, development of a new Phoslock Plus product, and evaluating new water treatment products.

The technical group has undertaken significant work on the effects of Phoslock post application and monitoring of algal species. The body of research on applications completed shows that Phoslock changes the Nitrogen/Phosphorus ratio in a water body leading to a change in algal species away from blue green varieties.

The technical group has spent considerable time and resources working with prawn growing companies to find the optimal timing and amount of Phoslock to apply into growing ponds. Results to date are very encouraging from work with the larger sophisticated prawn growing companies.

**Sales and Marketing:**

PWS markets Phoslock directly in Australia, United Kingdom, Ireland, China and several Mediterranean countries. Licensees are in place for New Zealand, United States, Canada, Germany, Netherlands, Belgium, Luxemburg, Switzerland, Austria, Poland, Hungary, Southern Africa, Indonesia, Malaysia, South Korea, Singapore and Taiwan. PWS is currently in discussions with potential licensees for Denmark, Romania, Israel, UAE and Japan.

Progress in each major market segment follows.

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

**Lake Restoration, Drinking Water Reservoirs & Dams**

Some of our licensees have made significant progress in the development of their Phoslock license. Our German licensee, whose license also covers Switzerland, Austria and Benelux, has developed a seven person organisation totally dedicated to the development of the Phoslock business. To date they have completed applications to three mid sized lakes and have built up a large future pipeline of projects. Our licensee has indicated that it expects to complete 4 and possibly up to 6 lake treatments between now and the end of the year totaling approx 120-150 tons. They are also providing technical resources for PWS for proposals for projects in other European countries.

In Europe (outside Germany) PWS has a large pipeline of potential applications in Poland, Netherlands and Italy. Some of these projects are expected to receive the official go-ahead in the coming months.

In the United Kingdom, PWS has established its own business. Over 30 small and medium sized applications were completed during the year. The highlight was the application to a drinking water reservoir managed by a leading UK water authority. The ongoing monitoring of this application will form an important reference site for PWS's future business in the UK. PWS is in discussions with a lake monitoring company to assist PWS with its business in the UK and Ireland.

Our North American licensee has had significant success focusing on lake restoration issues around the Great Lakes and southern Canada. They have identified and targeted a large population of heavily eutrophied water bodies in this area which are receiving government assistance to remedy its problems. Our licensee expects to undertake an application to a 25km canal in the coming months which flows into a large eutrophied lake.

In New Zealand, local authorities have announced details to spend NZ\$120 million on Rotorua lakes restoration projects, including NZ\$12 million allocated specifically for the use of Phoslock and a further NZ\$32 million on other sediment treatments. Smaller amounts of Phoslock has been applied on three separate occasions to Lake Okareka. These applications have been designed to test Phoslock's phosphorus absorption capacity, sediment capping capability and effect on fish or biota in the lake.

In Australia PWS completed its two largest applications to date - a drinking water reservoir in southern NSW and part of the River Torrens next to Adelaide city. The results from both applications have been excellent. With the assistance of Total Eden in Western Australia, a number of small and mid-sized applications have also been completed in and around Perth. PWS has over 20 proposals with various water body managers around Australia for applications ranging from 10 tons to in excess of 1,000 tons.

**Aquaculture**

PWS commenced trials using Phoslock in prawn ponds owned by small operators in Indonesia in late 2006. The results of these trials were very positive and lead to Phoslock being trialed by some of the largest prawn growing operators in Indonesia and Malaysia. Trial results to date look very encouraging. These trials are likely to continue until the end of 2007.

PWS is also working with prawn farms in Australia with new commercial trials about to begin when this season's growing cycle commences in October.

**Retail products**

In 2006 PWS launched a range of retail products (1.25kg, 2.5kg and 5kg containers) which are sold on the internet and via a network of retail stores throughout Australia. The results to date have been mixed. Several of the larger retail chains, Total Eden in Western Australia and McCrackens in Queensland, NSW and Victoria have performed very well and uplied sales to larger water bodies controlled by corporate and industrial clients. A number of the smaller retail stores located in water short areas have struggled to find a suitable market. As a result the retail network stock Phoslock retail products have been reduced from 75 stores to approx 45 stores.

**Watersavr**

In late 2006 PWS acquired the license to sell the evaporation control product, WaterSavr to the large water body market in Australia. WaterSavr is US FDA approved for use on drinking water reservoirs and has had a number of independent studies completed on the products effectiveness. PWS took over the license from Nylax who had undertaken several successful trials which demonstrated that WaterSavr saved an average of 31% of water from evaporation. PWS made a number of sales to medium sized water authorities in Victoria and southern NSW.

PWS is currently in dialogue with several of the large metropolitan water authorities and about to undertake trials to demonstrate the effectiveness of the product.

WaterSavr is an ideal add on product to PWS's product range as it is being marketed to the same water authorities who use Phoslock.

**Future Developments, Prospects and Business Strategies**

To improve the economic entity's earnings performance and maximize shareholder value, the following developments are intended to be implemented:

- (i) Conversion of sales pipeline into near term sales. PWS has built up an extensive pipeline of potential sales around the world. Most of PWS and its licensees customers are governmental organizations. PWS has undertaken various pilot projects with potential customers to demonstrate the effectiveness of Phoslock. Customers generally have different internal processes to be completed before a purchase order is provided to PWS or its licensee. In many instances customers are currently progressing the Phoslock purchase, having been satisfied on technical issues, through its internal approval system.
- (ii) Increased targeted marketing by PWS and its licensees using results of past applications to demonstrate the effectiveness of the product. The current sales cycle for larger water bodies is 6-24 months. As more applications are completed it is expected that the sales cycle period will be significantly reduced.
- (iii) When demand justifies additional production capacity, PWS proposes to construct a second Phoslock manufacturing plant, most likely in China. A second plant will also mitigate the risks associated with a single production source.
- (iv) Continued focus on the aquaculture sector. The amount of aquaculture products coming from aquaculture ponds is increasing each year. Within these closed systems there is significant water quality problems which affect the health, size, and mortality rate of the species in the ponds. Work to date by PWS indicates that the environmental qualities of Phoslock add significant value to the yield from the ponds.
- (v) Evaluation and development of other water treatment products which could be added to PWS's product range.

**Financial Position**

The net assets of the economic entity have reduced by \$383,560 from 30 June 2006 to \$7,558,044 in 2007. The net decrease is largely a result of the receipt of a \$400,000 payment instalment in relation to sale of the bentonite mine. This cash and capital raised by share issues \$3,888,194 has been offset by trading losses. During the past five financial years the group has invested in the Phoslock technology with the objective of securing its long term success. Strategic investments have been made in associated companies and licensee operations to provide the company with the necessary management influence and control to ensure business goals and objectives are met. The directors believe the group is in a strong and stable financial position to capitalise on the many opportunities to expand and grow its current operations.

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

**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 19th December 2006 the Company issued 12,800,000 ordinary shares at \$0.23 each to raise \$2,944,000 in additional 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. Under the stewardship of PWS's former Managing Director, PWS did not comply with the reporting requirements and is currently working with NICNAS to address this issue.

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

**Information on Directors**

<b>Dr David Garman</b>	—	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	—	400,000 Ordinary Shares in Phoslock Water Solutions Limited and options to acquire a further 900,000 ordinary shares.
Special Responsibilities	—	Dr Garman is a Member of the Audit Committee and Remuneration Committee.
<b>Mr Robert Schuitema</b>	—	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	—	2,430,000 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)
<b>Mr Russell Brown</b>	—	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.
<b>The Hon. Pam Allan (Appointed 10/7/2007)</b>	—	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.

**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.

The performance of executives is measured against criteria agreed annually with each executive. All bonuses and incentives are linked to predetermined 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.

Executives are also entitled to participate in employee option arrangements.

The executive directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits.

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 boards policy is to remunerate non-executive directors by reference to market rates for comparable companies for time commitment and responsibilities. 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 plans.

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

**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.

**Key Management Personnel Remuneration**

	Short-term Employee Benefits		Post Employment Benefits	Share-based Payments	Long Term Benefits	Total
	Salary, Fees and Commissions \$	Other \$	Superannuation \$	Options \$	Other \$	
<b>2007</b>						
<b>Directors</b>						
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
	<u>733,842</u>	<u>30,416</u>	<u>40,157</u>	<u>-</u>	<u>-</u>	<u>804,415</u>
<b>Specified Executives</b>						
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
Mr Andrew Winks	61,948	-	4,422	-	-	66,370
	<u>394,891</u>	<u>81,945</u>	<u>42,915</u>	<u>106,716</u>	<u>-</u>	<u>626,467</u>
<b>Total</b>	<u>1,128,733</u>	<u>112,361</u>	<u>83,072</u>	<u>106,716</u>	<u>-</u>	<u>1,430,882</u>
<b>2006</b>						
<b>Directors</b>						
Mr Robert Schuitema	142,500	7,500	14,024	130,401	-	294,425
Mr Brett Crowley	245,000	20,000	23,450	117,400	-	405,850
Dr David Garman	45,000	-	-	13,001	-	58,001
Mr Russell Brown	45,000	-	-	13,001	-	58,001
	<u>477,500</u>	<u>27,500</u>	<u>37,474</u>	<u>273,803</u>	<u>-</u>	<u>816,277</u>
<b>Specified Executives</b>						
Mr Colin Upcroft	120,000	12,801	11,700	26,002	-	170,503
Mr Nigel Traill	97,500	-	8,775	26,002	-	132,277
Mr Andrew Winks	82,819	13,758	6,300	39,003	-	141,880
	<u>300,319</u>	<u>26,559</u>	<u>26,775</u>	<u>91,007</u>	<u>-</u>	<u>444,660</u>
<b>Total</b>	<u>777,819</u>	<u>54,059</u>	<u>64,249</u>	<u>364,810</u>	<u>-</u>	<u>1,260,937</u>

**Performance Income as a Proportion of Total Remuneration**

Directors and specified executives remuneration for the year did not contain a performance based component. 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 2007**

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 a reward for past service and performance with the objective of increasing goal congruence between executives, directors and shareholders. Options have been valued by reference to the Black Scholes method.

	Options Granted as Part of Remuneration	Total Remuneration Represented by Options	Options Exercised	Options Lapsed	Total
	\$	%	\$	\$	\$
Mr Eddie Edmunds	106,716	48	-	-	106,716

No options which were granted as part of key executive remuneration lapsed during the year.

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

**Shares Issued on Exercise of Compensation Options**

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

	<b>No of Ordinary Shares Issued</b>	<b>Amount paid per share</b>	<b>Amount unpaid per share</b>
<b>Key Management Personnel</b>			
Brett Crowley	1,000,000	\$0.227	\$0.00
Brett Crowley	2,500,000	\$0.20	\$0.00
Colin Upcroft	10,000	\$0.20	\$0.00
	<u>3,510,000</u>		

**Employment Contracts of Directors and Senior Executives**

The employment conditions of the Managing Director and executives are formalised in contracts of employment. Other than the Managing Director all executives are permanent employees of Phoslock Water Solutions Ltd. The Managing Director's contract expires on 30 November 2007.

The 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, 13 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
Mr Robert Schuitema	11	11	1	1	1	1
Mr Brett Crowley	7	7	-	-	-	-
Dr David Garman	11	11	1	1	1	1
Mr Russell Brown	11	11	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 \$42,220 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.

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

**Options**

Options that were granted over unissued shares or interest during or since the financial year by the Company or controlled entity to directors or executives as part of their remuneration are as follows:

	Number of options granted
<b>Key management person</b>	
Mr Eddie Edmunds	2,350,000

350,000 of these options have an exercise price of \$0.20 and were granted on 15 August 2006 and the balance with exercise prices ranging from \$0.50 to \$0.60 granted on 10 January 2007.

350,000 of these options have already vested, with 1,000,000 vesting on 31 December 2007 and the balance on 31 December 2008.

350,000 of these options expire on 31 December 2008 with 1,000,000 expiring on 30 June 2009 and the balance on 30 June 2010.

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

<u>Grant Date</u>	<u>Date of expiry</u>	<u>Exercise price</u>	<u>Number under option</u>
25 November 2004	25 November 2007	\$0.227	1,700,000
10 June 2005	30 June 2008	\$0.20	2,490,000
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 June 2008	\$0.20	350,000
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	900,000
31 May 2006	30 June 2008	\$0.20	100,000
31 May 2006	30 June 2009	\$0.20	100,000
15 August 2006	31 December 2008	\$0.20	150,000
15 August 2006	31 December 2008	\$0.20	350,000
19 December 2006	30 November 2007	\$0.23	500,000
10 January 2007	30 June 2009	\$0.50	1,150,000
10 January 2007	30 June 2010	\$0.60	1,000,000
31 May 2007	31 December 2009	\$0.50	100,000
31 May 2007	31 December 2010	\$0.50	100,000
23 June 2007	31 December 2009	\$0.50	50,000

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

**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 2007 has been received and can be found on page 8 of the directors' report.



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

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

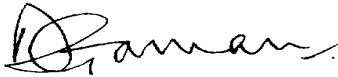
Director



*Mr Robert Schuitema - Managing Director*

Dated this 21 day of September 2007

Director



*Dr David Garman - Chairman of Directors*

Dated this 21 day of September 2007

**Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the directors of Phoslock Water Solutions Ltd and Controlled Entities**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2007 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.



WILLIAM BUCK  
Chartered Accountants

Brisbane, 24 September 2007



D W LANGDON  
Lead Audit Partner

**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES**  
**INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2007**

	Note	Consolidated Group 2007 \$	2006 \$	Parent Entity 2007 \$	2006 \$
Sales Revenue	2	1,033,040	765,139	-	-
Cost of Sales		(590,849)	(438,253)	-	-
Gross Profit		442,191	326,886	-	-
Other income	2	91,632	568,988	-	-
Distribution expenses		(80,446)	(38,086)	-	-
Marketing expenses		(575,556)	(270,636)	-	-
Occupancy expenses		(221,437)	(187,951)	-	-
Administrative expenses		(1,353,048)	(1,004,126)	(100)	(4)
Employee benefits expense		(2,093,772)	(1,547,467)	-	-
Depreciation and amortisation		(423,906)	(531,858)	(110,100)	(52,758)
Loss on sale of plant and equipment		-	(596,455)	-	-
Other expenses		(143,190)	(362,328)	-	-
Finance Costs		(3,429)	-	-	-
Share of net loss of associates		(11,276)	-	-	-
Loss before income tax	3	(4,374,075)	(3,643,033)	(110,200)	(52,762)
Income tax expense	4	-	-	-	-
Loss for the year		(4,374,075)	(3,643,033)	(110,200)	(52,762)
Loss attributable to minority equity interest		24,743	2,713	-	-
Loss attributable to members of the parent entity		(4,349,332)	(3,640,320)	(110,200)	(52,762)
<b>Overall Operations</b>					
Basic earnings per share (cents per share)	7	(3.13)	(3.10)		
Diluted earnings per share (cents per share)	7	(3.08)	(3.10)		

The accompanying notes form part of these financial statements.

**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES  
BALANCE SHEET AS AT 30 JUNE 2007**

	Note	Consolidated Group 2007 \$	2006 \$	Parent Entity 2007 \$	2006 \$
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	8	2,176,819	2,077,697	5,243	5,343
Trade and other receivables	9	283,811	985,149	-	-
Inventories	10	1,245,289	960,127	-	-
Other current assets	17	71,358	55,862	-	-
<b>TOTAL CURRENT ASSETS</b>		<b>3,777,277</b>	<b>4,078,835</b>	<b>5,243</b>	<b>5,343</b>
<b>NON-CURRENT ASSETS</b>					
Trade and other receivables	9	400,000	400,000	15,442,843	11,376,124
Investments accounted for using the equity method	11	34,941	-	-	-
Financial assets	13	-	-	4,647,929	4,647,929
Property, plant and equipment	15	843,552	903,002	-	-
Intangible assets	16	3,411,338	3,590,862	1,103,356	1,213,456
<b>TOTAL NON-CURRENT ASSETS</b>		<b>4,689,831</b>	<b>4,893,864</b>	<b>21,194,128</b>	<b>17,237,509</b>
<b>TOTAL ASSETS</b>		<b>8,467,108</b>	<b>8,972,699</b>	<b>21,199,371</b>	<b>17,242,852</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	18	772,341	866,665	-	-
Short-term borrowings	19	3,844	-	-	-
Short-term provisions	20	100,182	132,373	-	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>876,367</b>	<b>999,038</b>	<b>-</b>	<b>-</b>
<b>NON-CURRENT LIABILITIES</b>					
Other long-term provisions	20	32,697	32,057	-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>32,697</b>	<b>32,057</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>909,064</b>	<b>1,031,095</b>	<b>-</b>	<b>-</b>
<b>NET ASSETS</b>		<b>7,558,044</b>	<b>7,941,604</b>	<b>21,199,371</b>	<b>17,242,852</b>
<b>EQUITY</b>					
Issued capital	21	24,458,037	20,572,379	24,458,037	20,572,379
Reserves		864,592	745,652	913,625	732,564
Accumulated losses		(17,916,916)	(13,567,584)	(4,172,291)	(4,062,091)
Parent interest		7,405,713	7,750,447	21,199,371	17,242,852
Minority equity interest		152,331	191,157	-	-
<b>TOTAL EQUITY</b>		<b>7,558,044</b>	<b>7,941,604</b>	<b>21,199,371</b>	<b>17,242,852</b>

The accompanying notes form part of these financial statements.

**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES**  
**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2007**

	Issued Share Capital	Accumulated Losses	Foreign Currency Translation Reserve	Option Reserve	Minority Equity Interests	Total
	\$	\$	\$	\$	\$	\$
<b>Consolidated Group</b>						
<b>Balance at 1 July 2005</b>	16,773,215	(9,927,264)	(5,369)	301,434	178,698	7,320,714
Loss attributable to members of parent entity	-	(3,640,320)	-	-	-	(3,640,320)
Loss attributable to minority shareholders	-	-	-	-	(2,713)	(2,713)
Shares Issued during the year	3,885,318	-	-	-	-	3,885,318
Transaction costs	(86,154)	-	-	-	-	(86,154)
Adjustments from translation of foreign controlled entities	-	-	18,457	-	15,172	33,629
Option reserve on recognition of employee options expense	-	-	-	321,008	-	321,008
Option reserve on recognition of other issue of options	-	-	-	110,122	-	110,122
<b>Balance at 30 June 2006</b>	<b>20,572,379</b>	<b>(13,567,584)</b>	<b>13,088</b>	<b>732,564</b>	<b>191,157</b>	<b>7,941,604</b>
Shares issued during the year	4,033,500	-	-	-	-	4,033,500
Transaction costs	(147,842)	-	-	-	-	(147,842)
Losses attributable to members of parent entity	-	(4,349,332)	-	-	-	(4,349,332)
Losses attributable to minority shareholders	-	-	-	-	(24,743)	(24,743)
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
<b>Balance at 30 June 2007</b>	<b>24,458,037</b>	<b>(17,916,916)</b>	<b>(49,033)</b>	<b>913,625</b>	<b>152,331</b>	<b>7,558,044</b>

	Issued Share Capital	Accumulated Losses	Foreign Currency Translation Reserve	Option Reserve	Minority Equity Interests	Total
	\$	\$	\$	\$	\$	\$
<b>Parent Entity</b>						
<b>Balance at 1 July 2005</b>	16,773,215	(4,009,329)	-	301,434	-	13,065,320
Losses attributable to members of parent entity	-	(52,762)	-	-	-	(52,762)
Shares issued during the year	3,885,318	-	-	-	-	3,885,318
Transaction costs	(86,154)	-	-	-	-	(86,154)
Option reserve on recognition of employee options expense	-	-	-	321,008	-	321,008
Option reserve on recognition of other issue of options	-	-	-	110,122	-	110,122
<b>Balance at 30 June 2006</b>	<b>20,572,379</b>	<b>(4,062,091)</b>	<b>-</b>	<b>732,564</b>	<b>-</b>	<b>17,242,852</b>
Losses attributable to members of parent entity	-	(110,200)	-	-	-	(110,200)
Shares issued during the year	4,033,500	-	-	-	-	4,033,500
Transaction costs	(147,842)	-	-	-	-	(147,842)
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
<b>Balance at 30 June 2007</b>	<b>24,458,037</b>	<b>(4,172,291)</b>	<b>-</b>	<b>913,625</b>	<b>-</b>	<b>21,199,371</b>

The accompanying notes form part of these financial statements.

**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES  
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2007**

	Note	Consolidated Group 2007 \$	2006 \$	Parent Entity 2007 \$	2006 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers		1,395,116	510,204	-	-
Interest received		87,785	27,044	-	-
Payments to suppliers and employees		(5,219,031)	(3,481,416)	(100)	(4)
Other Income		-	86,713		
Finance costs		(4,087)	-	-	-
Net cash provided by (used in) operating activities	25(a)	<u>(3,740,217)</u>	<u>(2,857,455)</u>	<u>(100)</u>	<u>(4)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sale of property, plant and equipment		387,255	1,597,366	-	-
Proceeds from sale of investments		-	489,785	-	-
Purchase of property, plant and equipment		(261,705)	(459,089)	-	-
Purchase of investments		-	-	-	(2)
Purchase of other non-current assets		(146,438)	(581,459)	-	(470,000)
Payment for subsidiary, net of cash acquired		-	(50,713)	-	(50,713)
Net cash provided by (used in) investing activities		<u>(20,888)</u>	<u>995,890</u>	<u>-</u>	<u>(520,715)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from issue of shares		4,033,500	2,365,237	4,033,500	2,365,237
Repayment of borrowings		-	-	(3,888,194)	(1,749,662)
Capital raising costs		(145,306)	(89,513)	(145,306)	(89,513)
Net cash provided by (used in) financing activities		<u>3,888,194</u>	<u>2,275,724</u>	<u>-</u>	<u>526,062</u>
Net increase (decrease) in cash held		127,089	414,159	(100)	5,343
Cash at beginning of financial year		2,077,697	1,631,192	5,343	-
Effect of exchange rates on cash holdings in foreign currencies		(31,811)	32,346	-	-
Cash at end of financial year	8	<u><u>2,172,975</u></u>	<u><u>2,077,697</u></u>	<u><u>5,243</u></u>	<u><u>5,343</u></u>

The accompanying notes form part of these financial statements.

**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

**Note 1** **Statement of Significant Accounting Policies**

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

The financial report covers the consolidated group of Phoslock Water Solutions Limited and controlled entities, and Phoslock Water Solutions Limited as an individual parent entity. Phoslock Water Solutions Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of Phoslock Water Solutions Limited and controlled entities, and Phoslock Water Solutions Limited as an individual parent entity complies with all International Financial Reporting Standards (IFRS) in their entirety.

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

**Basis of Preparation**

The accounting policies set out below have been consistently applied to all years presented.

*Reporting Basis and Conventions*

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

**Accounting Policies**

**(a) Principles of Consolidation**

A controlled entity is any entity Phoslock Water Solutions Limited has the power to control the financial and operating policies so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 14 to the financial statements. All controlled entities have a June financial year-end.

All inter-company 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 policies applied by the parent entity.

Where controlled entities have entered or 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.

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

**(b) Income Tax**

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. 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 is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Phoslock Water Solutions Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. Each entity in the group recognises its own current and deferred tax liabilities, except for any deferred tax assets resulting from unused tax losses and tax credits which are immediately assumed by the parent entity. The current tax liability of each group entity is then subsequently assumed by the parent entity. The group notified the Australian Taxation Office that it had formed an income tax consolidated group to apply from 1 July 2004. The tax consolidated group has entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

**(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 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.

**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

**Depreciation**

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

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

Class of Fixed Asset	Depreciation Rate
Plant and 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.

**(f) Financial Instruments**

**Recognition**

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

**Financial assets at fair value through profit and loss**

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

**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 stated at amortised cost using the effective interest rate method.

**Held-to-maturity investments**

These investments have fixed maturities, and it is the group's intention to hold these investments to maturity. Any held-to-maturity investments held by the group are stated at amortised cost using the effective interest rate method.

**Available-for-sale financial assets**

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

**Financial liabilities**

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

**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 arms 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 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 or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets 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 till 2017.

**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.



**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

**(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 yearend 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, plus related on-costs.

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 bonus element over the exercise price of the employee services rendered in exchange for the grant of options is recognised as an expense in the income statement. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares of the options granted.

**(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**

Revenue from the sale of goods is recognised upon the delivery of goods to customers. Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

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.

**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.

**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

**Note 2**

**Revenue**

	Note	Consolidated Group		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
Sales Revenue					
— sale of goods		1,033,040	765,139	-	-
Total Sales Revenue		1,033,040	765,139	-	-
Other Revenue					
— interest received	2(a)	87,931	25,749	-	-
— royalties		25	54,815	-	-
Other Income	2(b)	1,838	488,424	-	-
Total Other Revenues		89,794	568,988	-	-
Total Sales Revenue and Other Revenue		1,122,834	1,334,127	-	-
(a) Interest revenue from:					
— other persons		87,931	25,749	-	-
(b) Other Income					
— gain on disposal of property, plant and equipment		1,466	-	-	-
— gains on disposal of non-current investments		-	488,424	-	-
— other income		372	-	-	-
Total Other Income		1,838	488,424	-	-

**Note 3**

**Profit/(Loss) before Income Tax for the Year**

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
(a) Expenses				
Cost of sales	590,849	438,253	-	-
Finance costs:				
— Other persons	3,429	-	-	-
Impairment of non-current investments to recoverable amount	-	342,584	-	-
Foreign currency translation losses	12,717	-	-	-
Bad and doubtful debts:				
— trade receivables	8,234	4,000	-	-
Rental expense on operating leases				
— minimum lease payments	221,437	187,951	-	-
Gain on disposal of property, plant and equipment	1,466	-	-	-
Depreciation of property plant and equipment	119,806	59,255	-	-
Amortisation of non-current assets				
- bentonite mine	-	206,757	-	-
- research and development expenditure	7,000	6,839	-	-
- phoslock licence, patents and trademarks	319,567	259,007	110,100	52,758
Total amortisation	326,567	472,603	110,100	52,758
Research and development costs	-	212,801	-	-
Write-down of inventories to net realisable value	-	20,621	-	-
(b) Significant Revenue and Expenses				
The following significant revenue and expense items are relevant in explaining the financial performance:				
Sale of Bentonite Mining Tenements				
Consideration on disposal	-	2,471,326	-	-
Carrying amount of net assets sold	-	3,066,534	-	-
Net loss on disposal	-	(595,208)	-	-
Sale of Puda Share Investment				
Consideration on disposal	-	489,523	-	-
Carrying amount of net assets sold	-	1,099	-	-
Net gain on disposal	-	488,424	-	-

**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

**Note 4 Income Tax Expense**

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
(a) Prima facie tax payable on loss before income tax at 30% (2006: 30%)				
— consolidated group	(1,312,222)	(1,092,910)		
— parent entity			(33,060)	(15,829)
Add:				
Tax effect of:				
— non-deductible depreciation and amortisation	89,130	134,026	33,030	15,828
— other non-allowable items	3,128	959	-	-
— write-downs to recoverable amounts	-	102,775	-	-
— share options expensed during year	35,651	96,302	-	-
— other items	-	38,129	-	-
— 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	1,199,950	740,323	30	20,609
	<u>15,637</u>	<u>19,604</u>	<u>-</u>	<u>20,608</u>
Less:				
Tax effect of:				
— share of net profits of associates and joint venture entities netted directly	(3,383)	-	-	-
— other tax concessions & deductible amounts	19,020	19,604	-	20,608
Income tax attributable to entity	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(b) Potential future income tax benefits attributable to tax losses carried forward not brought to account	<u>4,398,469</u>	<u>3,256,534</u>	<u>145,087</u>	<u>145,057</u>

**Note 5 Key Management Personnel Compensation**

(a) Names and positions held of consolidated group 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
Mr Brett Crowley (Retired 9/1/2007)	Managing Director
Mr Colin Upcroft	Chief Financial Officer and Company Secretary
Mr Nigel Traill	Regional Manager Europe, Africa and The Middle East
Mr Eddie Edmunds	Chief Operating Officer
Mr Andrew Winks	Group Operations Manager

(b) **Options and Rights Holdings**

Number of Options Held by Key Management Personnel

	Balance 1.07.2006	Granted as Compensation	Options Exercised*	Net Change Other*	Total Vested & Total Vested &		Total Vested & Exercisable 30.06.2007	Total Vested & Unexercisable 30.06.2007
					Balance 30.06.2007	Total Vested 30.06.2007		
<b>2007</b>								
Dr David Garman	900,000	-	-	-	900,000	900,000	900,000	-
Mr Robert Schuitema	7,000,000	-	-	-	7,000,000	5,000,000	5,000,000	-
Mr Russell Brown	500,000	-	-	-	500,000	500,000	500,000	-
Mr Brett Crowley (Retired 9/1/2007)	7,500,000	-	3,500,000	-	4,000,000	4,000,000	4,000,000	-
Mr Colin Upcroft	1,500,000	-	10,000	-	1,490,000	1,490,000	1,490,000	-
Mr Nigel Traill	1,800,000	-	-	-	1,800,000	1,800,000	1,800,000	-
Mr Eddie Edmunds	-	2,350,000	-	-	2,350,000	350,000	350,000	-
Mr Andrew Winks	1,500,000	-	-	-	1,500,000	1,500,000	1,500,000	-
	<u>20,700,000</u>	<u>2,350,000</u>	<u>3,510,000</u>	<u>-</u>	<u>19,540,000</u>	<u>15,540,000</u>	<u>15,540,000</u>	<u>-</u>

The net change other column above includes those options that have been forfeited by holders as well as options issued during the year under review.

(c) **Shareholdings**

Number of Shares held by Key Management Personnel

	Balance 1.07.2006	Received as Compensation	Options Exercised	Net Change Other*	Balance 30.06.2007
<b>Key Management Personnel</b>					
Dr David Garman	400,000	-	-	-	400,000
Mr Robert Schuitema	2,400,000	-	-	-	2,400,000
Mr Russell Brown	-	-	-	-	-
Mr Brett Crowley (Retired 9/1/2007)	459,000	-	3,500,000	3,959,000	-
Mr Colin Upcroft	-	-	10,000	-	10,000
Mr Nigel Traill	2,300,529	-	-	-	2,300,529
Mr Eddie Edmunds	-	-	-	-	-
Mr Andrew Winks	-	-	-	-	-
	<u>5,559,529</u>	<u>-</u>	<u>3,510,000</u>	<u>3,959,000</u>	<u>5,110,529</u>

\* Net change other refers to shares purchased or sold during the financial year.

**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

**Note 6 Auditors' Remuneration**

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Remuneration of the auditor of the parent entity for:				
— auditing or reviewing the financial report	53,675	25,474	-	-
Remuneration of other auditors of subsidiaries for:				
— auditing or reviewing the financial report of subsidiaries	7,492	3,148	-	-

**Note 7 Earnings per Share**

	Consolidated Group	
	2007	2006
	\$	\$
(a) Reconciliation of earnings to profit or loss		
Profit / (Loss)	(4,374,075)	(3,643,033)
Profit / (Loss) attributable to minority equity interest	24,743	2,713
Earnings used to calculate basic EPS	<u>(4,349,332)</u>	<u>(3,640,320)</u>
Earnings used in the calculation of dilutive EPS	<u>(4,349,332)</u>	<u>(3,640,320)</u>
(b) Reconciliation of earnings to profit or loss from continuing operations		
Profit / (Loss) from continuing operations	(4,374,075)	(3,643,033)
Profit / (Loss) attributable to minority equity interest in respect of continuing operations	24,743	2,713
Earnings used to calculate basic EPS from continuing operations	<u>(4,349,332)</u>	<u>(3,640,320)</u>
Earnings used in the calculation of dilutive EPS from continuing operations	<u>(4,349,332)</u>	<u>(3,640,320)</u>
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	No. 138,962,332	No. 117,260,231
Weighted average number of options outstanding	2,200,000	-
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	<u>141,162,332</u>	<u>117,260,231</u>
(d) Classification of securities		
26,237,913 of the 28,437,913 options remaining unconverted at year-end are not included in basic and dilutive EPS as the exercise of the options is contingent upon future 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**

	Note	Consolidated Group		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
Cash at bank and in hand		2,080,697	2,013,120	5,243	5,343
Short-term bank deposits		96,122	64,577	-	-
		<u>2,176,819</u>	<u>2,077,697</u>	<u>5,243</u>	<u>5,343</u>

The effective interest rate on short-term bank deposits was 5.5% (2006: 5.5%); these deposits have an average maturity of 90 days.

Reconciliation of cash

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

Cash and cash equivalents		2,176,819	2,077,697	5,243	5,343
Bank overdrafts	19	(3,844)	-	-	-
		<u>2,172,975</u>	<u>2,077,697</u>	<u>5,243</u>	<u>5,343</u>

**Note 9 Trade and Other Receivables**

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>CURRENT</b>				
Trade receivables	89,736	397,221	-	-
Provision for impairment of receivables	(8,000)	(8,000)	-	-
	<u>81,736</u>	<u>389,221</u>	<u>-</u>	<u>-</u>
Other receivables	202,075	595,928	-	-
	<u>283,811</u>	<u>985,149</u>	<u>-</u>	<u>-</u>
<b>NON-CURRENT</b>				
Other receivables	400,000	400,000	-	-
Amounts receivable from:				
— wholly-owned entities	-	-	15,442,843	11,376,124
	<u>400,000</u>	<u>400,000</u>	<u>15,442,843</u>	<u>11,376,124</u>

**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

**Note 10 Inventories**

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
CURRENT				
At cost				
Raw materials and stores	100,453	122,502	-	-
Finished goods	1,144,836	837,625	-	-
	<u>1,245,289</u>	<u>960,127</u>	-	-

**Note 11 Investments Accounted for Using the Equity Method**

	Note	Consolidated Group		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
Associated companies	12(a)	34,941	-	-	-
		<u>34,941</u>	-	-	-

**Note 12 Associated Companies**

Interests are held in the following associated companies

Name	Principal Activities	Country of Incorporation	Shares	Ownership Interest		Carrying Amount of Investment	
				2007	2006	2007	2006
				%	%	\$	\$
Unlisted:							
Phoslock Africa Pty Ltd	Phoslock sales	South Africa	Ord	50	-	34,491	-
						<u>34,491</u>	-

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

	Note	Consolidated Group		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
Balance at beginning of the financial year		-	-	-	-
Add: New investments during the year		46,217	-	-	-
Share of associated company's loss after income tax	12(b)	(11,276)	-	-	-
Balance at end of the financial year		<u>34,941</u>	-	-	-

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

Share of associate's loss before income tax expense	(11,276)	-	-
Share of associate's income tax expense	-	-	-
Share of associate's loss after income tax	<u>(11,276)</u>	-	-

**(c) Summarised Presentation of Aggregate Assets, Liabilities and Performance of Associates**

Current assets	76,248	-	-
Non-current assets	-	-	-
Total assets	<u>76,248</u>	-	-
Current liabilities	6,365	-	-
Non-current liabilities	-	-	-
Total liabilities	<u>6,365</u>	-	-
Net assets	<u>69,883</u>	-	-
Revenues	-	-	-
Profit / (Loss) after income tax of associates	<u>(22,553)</u>	-	-

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

**Note 13 Financial Assets**

	Note	Consolidated Group		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
NON CURRENT					
Available-for-sale financial assets	13(a)	-	-	4,647,929	4,647,929
		-	-	<u>4,647,929</u>	<u>4,647,929</u>

**(a) Available-for-sale financial assets Comprise:**

NON CURRENT					
Unlisted investments, at cost					
— shares in controlled entities		-	-	4,647,929	4,647,929
Total non-current available-for-sale financial assets		-	-	<u>4,647,929</u>	<u>4,647,929</u>

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

**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

**Note 14** **Controlled Entities**

(a) **Controlled Entities Consolidated**

	Country of Incorporation	Percentage Owned (%)*	
		2007	2006
<b>Parent Entity:</b>			
Phoslock Water Solutions Limited	Australia		
<b>Subsidiaries of Phoslock Water Solutions Limited :</b>			
Phoslock Pty Ltd	Australia	100	100
Yunnan Jinxingyan Environmental Conservational Consultative Co Ltd	China	100	100
IETC Environmental Protection Technology (Kunming) Ltd	China	71	71
Phoslock Water Solutions UK (Co) Ltd	UK	100	100
Phoslock Technologies Pty Ltd	Australia	100	100
<b>Subsidiaries of Phoslock Pty Ltd</b>			
Purezza Marketing Inc	USA	100	100

**Note 15** **Property, Plant and Equipment**

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>PLANT AND EQUIPMENT</b>				
Plant and equipment:				
At cost	1,235,128	1,071,483	-	-
Accumulated depreciation	(345,749)	(168,481)	-	-
Exchange differences	(45,827)	-	-	-
<b>Total plant and equipment</b>	<b>843,552</b>	<b>903,002</b>	<b>-</b>	<b>-</b>

(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 \$
<b>Economic Entity:</b>		
Balance at 30 June 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)
<b>Balance at 30 June 2007</b>	<b>843,552</b>	<b>843,552</b>

**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

**Note 16 Intangible Assets**

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Goodwill				
Cost	401,977	401,977	-	-
Accumulated impairment losses	(342,584)	(342,584)	-	-
Net carrying value	59,393	59,393	-	-
Phoslock patents, trademarks and licences				
Cost	4,050,806	3,906,314	1,266,214	1,266,214
Accumulated amortisation	(776,470)	(453,494)	(162,858)	(52,758)
Net carrying value	3,274,336	3,452,820	1,103,356	1,213,456
Development costs				
Cost	323,740	317,780	-	-
Accumulated amortisation and impairment	(246,131)	(239,131)	-	-
Net carrying value	77,609	78,649	-	-
Total intangibles	3,411,338	3,590,862	1,103,356	1,213,456
<b>Consolidated Group:</b>				
	Goodwill	Trademarks & Licences	Development Costs	Total
	\$	\$	\$	\$
<b>Year ended 30 June 2006</b>				
Balance at the beginning of year	-	2,228,153	85,488	2,313,641
Additions	401,977	1,483,674	-	1,885,651
Amortisation charge	-	(259,007)	(6,839)	(265,846)
Impairment losses	(342,584)	-	-	(342,584)
Closing carrying value at 30 June 2006	59,393	3,452,820	78,649	3,590,862
<b>Year ended 30 June 2007</b>				
Balance at the beginning of year	59,393	3,452,820	78,649	3,590,862
Additions	-	144,492	5,960	150,452
Amortisation charge	-	(322,976)	(7,000)	(329,976)
Closing carrying value at 30 June 2007	59,393	3,274,336	77,609	3,411,338

Intangible assets, other than goodwill have finite useful lives. The current amortisation charges in respect of intangible assets are included under depreciation and amortisation expense per the income statement. Goodwill has an infinite life.

The recoverable amount of each cash-generating unit above is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over the life of the Phoslock licence, a period of 10 years. The cash flows are discounted at a pretax rate of 14%.

Management has based the value-in-use calculations on budgets for each reporting segment. These budgets use historical weighted average growth rates to project revenue. Costs are calculated taking into account historical gross margins as well as estimated weighted average inflation rates over the period which are consistent with inflation rates applicable to the locations in which the segments operate. Discount rates are pre-tax and are adjusted to incorporate risks associated with a particular segment.

**Note 17 Other Assets**

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
CURRENT				
Prepayments	71,358	55,862	-	-
	71,358	55,862	-	-

**Note 18 Trade and Other Payables**

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
CURRENT				
Unsecured liabilities				
Trade payables	534,425	473,682	-	-
Sundry payables and accrued expenses	237,916	392,983	-	-
	772,341	866,665	-	-

**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

**Note 19 Borrowings**

	Note	Consolidated Group		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
CURRENT					
Bank overdrafts	19(a)	3,844	-	-	-
(a) Total current and non-current secured liabilities:					
Bank overdraft		3,844	-	-	-

**Note 20 Provision for Long-term Employee Benefits**

		Consolidated Group		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
CURRENT					
Employee Entitlements					
Balance at end of the year		100,182	132,373	-	-
NON CURRENT					
Employee Entitlements					
Balance at end of the year		32,697	32,057	-	-
Total provisions		132,879	164,430	-	-

**Provision for Employee Entitlements**

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	
	2007	2006	2007	2006
	\$	\$	\$	\$
148,233,784] (2006: 130,323,784) fully paid ordinary shares	24,458,037	20,572,379	24,458,037	20,572,379

**(a) Ordinary Shares**

	2007		2006	
	No.	\$	No.	\$
At the beginning of reporting period	130,323,784		104,659,494	
Shares issued during year				
— 6 October 2005			2,997,915	475,977
— 7 December 2005			9,500,000	1,263,500
— 16 December 2005			3,700,000	734,308
— 3 January 2006			2,071,823	298,104
— 20 March 2006			5,137,802	713,751
— 30 March 2006			2,256,750	313,525
— 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	
At reporting date	148,233,784	130,323,784	24,458,037	20,572,379

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

At the shareholders 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 the Phoslock Water Solutions Limited employee option plan, 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.



**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

**Note 22 Reserves**

- (a) **Foreign Currency Translation Reserve**  
 The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary
- (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	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>(a) Operating Lease Commitments</b>				
Non-cancellable operating leases contracted for but not capitalised in the financial statements				
Payable — minimum lease payments				
— not later than 12 months	237,701	178,227	-	-
— between 12 months and 5 years	391,739	219,497	-	-
— greater than 5 years	70,833	70,833	-	-
	<u>700,273</u>	<u>468,557</u>	<u>-</u>	<u>-</u>

Lease 1 is a non-cancellable lease with a three-year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall 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 lease areas.

Lease 2 is a non-cancellable lease with a three-year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall 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 lease areas.

Lease 3 is a non-cancellable lease with an eight-year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased annually by negotiation. Renewal options are available by negotiation. The lease does not allow for subletting of all lease areas.

Lease 4 is cancellable with a four month notice period required. Rent is payable monthly in advance. No renewal option exists.

Lease 5 is a non-cancellable lease with a thirty nine month term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall 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 term of three years. The lease allows for subletting of all lease areas.

**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

**Note 24**

**Segment Reporting**

	Environmental Technologies		Bentonite Mining		Consolidated Group	
	2007	2006	2007	2006	2007	2006
	\$	\$	\$	\$	\$	\$
<b>Primary Reporting — Business Segments</b>						
<b>REVENUE</b>						
External Sales	1,033,040	760,339	25	59,615	1,033,065	819,954
Total sales revenue	1,033,040	760,339	25	59,615	1,033,065	819,954
Unallocated revenue					89,769	25,749
Total revenue					1,122,834	845,703
<b>RESULT</b>						
Segment result	(3,299,116)	(2,911,982)	25	(244,398)	(3,299,091)	(3,156,380)
Unallocated expenses net of unallocated revenue					(1,074,984)	(486,653)
Finance Costs					3,429	-
Share of net profits of associates and joint venture entities					(11,276)	-
Profit before income tax					(4,374,075)	(3,643,033)
Income tax expense					-	-
Profit after income tax					(4,374,075)	(3,643,033)
<b>ASSETS</b>						
Segment assets	7,974,866	8,484,338	404,252	400,000	8,379,118	8,884,338
Unallocated assets					87,990	88,361
Total assets					8,467,108	8,972,699
<b>LIABILITIES</b>						
Segment liabilities	749,169	880,618	-	73,301	749,169	953,919
Unallocated liabilities					159,895	77,176
Total liabilities					909,064	1,031,095
<b>OTHER</b>						
Investments accounted for using the equity method	34,941	-	-	-	34,941	-
Acquisitions of non-current segment assets	385,665	1,839,126	-	-	385,665	1,839,126
Depreciation and amortisation of segment assets	510,823	378,864	-	206,757	510,823	585,621

**Secondary Reporting — Geographical Segments**

	Segment Revenues from External Customers		Carrying Amount of Segment Assets		Acquisitions of Non-current Segment Assets	
	2007	2006	2007	2006	2007	2006
	\$	\$	\$	\$	\$	\$
<b>Geographical location:</b>						
Australia	644,000	308,193	7,229,720	7,278,792	283,391	1,513,256
China	-	-	1,042,611	1,456,213	48,746	254,669
United States of America	-	271,096	-	-	-	-
United Kingdom	128,146	14,955	163,517	197,155	32,823	28,185
Europe	229,000	56,000	31,260	40,539	20,705	43,016
Other Countries	31,894	169,710	-	-	-	-
	1,033,040	819,954	8,467,108	8,972,699	385,665	1,839,126

**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 and provisions.

**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 sale of environmental technology products. The major products are a water treatment technology known as Phoslock and an evaporation retardant product distributed as Watesavr.
- The mining segment divested its interest in bentonite mining tenements last year but continues to receive deferred settlement payment royalties based on tons sold from the resource.

**Geographical segments**

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

**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

**Note 25 Cash Flow Information**

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>(a) Reconciliation of Cash Flow from Operations with Loss after Income Tax</b>				
Loss after income tax	(4,374,075)	(3,643,033)	(110,200)	(52,762)
Cash flows excluded from loss attributable to operating activities				
Non-cash flows in loss				
Amortisation	331,047	472,603	110,100	52,758
Depreciation	179,775	113,018	-	-
Net loss on disposal of property, plant and equipment	1,466	596,455	-	-
Net gain on disposal of investments	-	(488,424)	-	-
Share options expensed	181,061	321,008	-	-
Impairment loss	-	342,584	-	-
Share of associated companies net loss after income tax and dividends	11,276	-	-	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
(Increase)/decrease in trade and term receivables	309,678	(377,734)	-	-
(Increase)/decrease in prepayments	3,971	86,283	-	-
(Increase)/decrease in inventories	(78,698)	(750,024)	-	-
Increase/(decrease) in trade payables and accruals	(286,560)	423,072	-	-
Increase/(decrease) in provisions	(19,158)	46,737	-	-
Cash flow from operations	<u>(3,740,217)</u>	<u>(2,857,455)</u>	<u>(100)</u>	<u>(4)</u>

**(b) Acquisition of Entities**

During the prior year 51% of the controlled entity IETC (Kunming) Ltd was acquired. Details of this transaction are:

Purchase consideration	-	400,414	-	400,414
Cash consideration	-	100,000	-	100,000
Cash outflow	-	100,000	-	100,000
Assets and liabilities held at acquisition date:				
Receivables	-	33,240	-	33,240
Inventories	-	171,956	-	171,956
Property, plant and equipment	-	388,257	-	388,257
Other assets	-	289,192	-	289,192
Payables	-	(213,976)	-	(213,976)
	-	668,669	-	668,669
Goodwill on consolidation	-	59,393	-	59,393
Minority equity interests in acquisition	-	(327,648)	-	(327,648)
	-	400,414	-	400,414

**(c) Non-cash Financing and Investing Activities**

**(i) Options issue**

500,000 options were issued in December 2006 as consideration for capital raising related management services. The options have an exercise price of \$0.23 and expire in November 2007.

**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

**Note 26 Share-based Payments**

The following share-based payment arrangements existed at 30 June 2007:

During the year share options were granted to employees as remuneration incentives. The options hold no voting or dividend rights and are not transferable. Details of the options issues are as follows:

Number of Options	Grant date	Exercise Price	Expiry date
50,000	15.08.2006	\$ 0.20	30.12.2008
100,000	15.08.2006	\$ 0.20	31.12.2008
350,000	15.08.2006	\$ 0.20	31.12.2008
1,150,000	10.01.2007	\$ 0.50	30.06.2009
1,000,000	10.01.2007	\$ 0.60	30.06.2010
100,000	30.05.2007	\$ 0.50	31.12.2009
100,000	30.05.2007	\$ 0.50	31.12.2010
50,000	23.06.2007	\$ 0.50	31.12.2009

All options granted to key management personnel are ordinary shares in Phoslock Water Solutions Limited which confer a right of one ordinary share for every option held when exercised.

	Consolidated Group				Parent Entity			
	2007		2006		2007		2006	
	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	30,147,913	0.25	9,700,000	0.21	30,147,913	0.25	9,700,000	0.21
Granted	3,400,000	0.45	23,447,913	0.27	3,400,000	0.45	23,447,913	0.27
Exercised	(5,110,000)	0.21	-	-	(5,110,000)	0.21	-	-
Expired	-	-	(3,000,000)	0.20	-	-	(3,000,000)	0.20
Outstanding at year-end	28,437,913	0.28	30,147,913	0.25	28,437,913	0.28	30,147,913	0.25
Exercisable at year-end	21,040,000	0.25	19,250,000	0.22	21,040,000	0.25	19,250,000	0.22

There were 5,110,000 options exercised during the year ended 30 June 2007. These options had a weighted average share price of \$0.41 at exercise date.

The options outstanding at 30 June 2007 had a weighted average exercise price of \$0.28 and a weighted average remaining contractual life of 2.1 years. Exercise prices range from \$0.20 to \$0.60 in respect of options outstanding at 30 June 2007

The weighted average fair value of the options granted during the year was \$0.05.

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

Weighted average exercise price	\$0.45
Weighted average life of the option	2.1 years
Underlying share price	\$0.34
Expected share price volatility	30%
Risk free interest rate	5%

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 \$122,714 (2006:\$321,008), and relates, in full, to equity-settled share-based payment transactions.

Included under administration expense in the income statement is \$58,347 representing the fair value of 500,000 options issued in December 2006 as consideration for capital raising related management services. The options have an exercise price of \$0.23 and expire in November 2007.

**Options Issued as Part of Remuneration for the Year Ended 30 June 2007**

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 a reward for past service and performance with the objective of increasing goal congruence between executives, directors and shareholders. Options have been valued by reference to the Black Scholes method.

	Options Granted as Part of Remuneration \$	Total Remuneration Represented by Options %	Options Exercised \$	Options Lapsed \$	Total \$
Mr Eddie Edmunds	106,716	48	-	-	106,716

No options which were granted as part of key executive remuneration lapsed during the year.

**Shares Issued on Exercise of Compensation Options**

Key Management Personnel	No of Ordinary Shares Issued	Amounts Paid per Share	Amounts Unpaid per Share
Brett Crowley	1,000,000	\$0.227	\$0.00
Brett Crowley	2,500,000	\$0.20	\$0.00
Colin Upcroft	10,000	\$0.20	\$0.00

**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

**Note 27** **Events After the Balance Sheet Date**

The financial report was authorised for issue on 20 September 2007 by the board of directors.  
 No other events occurred after the balance date which require disclosure in the financial report.

**Note 28** **Financial Instruments**

(a) **Financial Risk Management**

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

(i) **Financial Risks**

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

**Interest rate risk**

For details on interest rate risk refer to Note 28 (b) (i).

**Foreign currency risk**

The group is exposed to fluctuations in foreign currencies, particularly the USD \$ arising from the sale and purchase of goods and services in currencies other than the group's measurement currency. This risk is managed by the maintenance of a USD \$ denominated bank account.

**Liquidity risk**

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate access to cash facilities are maintained.

**Credit risk**

The consolidated group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the consolidated group.

(b) **Financial Instruments**

(i) **Interest Rate Risk**

The consolidated group's exposure to interest rate risk, which is the risk that a financial instruments value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Weighted Average Effective Interest Rate %		Floating Interest Rate		Fixed Interest Rate Maturing			
	2007	2006	2007	2006	Within Year		1 to 5 years	
					2007	2006	2007	2006
<b>Financial Assets:</b>								
Cash and cash equivalents	4.95	4.83	2,080,697	2,013,120	96,122	64,577	-	-
Receivables								
<b>Total Financial Assets</b>			<b>2,080,697</b>	<b>2,013,120</b>	<b>96,122</b>	<b>64,577</b>	<b>-</b>	<b>-</b>
<b>Financial Liabilities:</b>								
Bank loans and overdrafts	8.25	-	3,844	-	-	-	-	-
Trade and sundry payables								
<b>Total Financial</b>			<b>3,844</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Financial Assets:</b>								
Cash and cash equivalents			-	-	-	-	2,176,819	2,077,697
Receivables			-	-	691,811	1,393,149	691,811	1,393,149
<b>Total Financial Assets</b>			<b>-</b>	<b>-</b>	<b>691,811</b>	<b>1,393,149</b>	<b>2,868,630</b>	<b>3,470,846</b>
<b>Financial Liabilities:</b>								
Bank loans and overdrafts			-	-	-	-	3,844	-
Trade and sundry payables			-	-	772,341	866,665	772,341	866,665
<b>Total Financial Liabilities</b>			<b>-</b>	<b>-</b>	<b>772,341</b>	<b>866,665</b>	<b>776,185</b>	<b>866,665</b>

(iii) **Net Fair Values**

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

**PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

**Note 29** **Change In Accounting Policy**

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

AASB Amendment	Standards Affected	Outline of Amendment	Application date of the standard	Application date for Group
AASB 1	AASB 1	Disclosure only - no impact	31 December 2007	1 July 2008
AASB 2	AASB 2	Disclosure only - no impact	29 February 2008	1 July 2008
AASB 7	AASB 130	Disclosure only - no impact	31 December 2007	1 July 2008
AASB 101	AASB 101	Disclosure only - no impact	31 December 2007	1 July 2008
AASB 114	AASB 114	Disclosure only - no impact	31 December 2007	1 July 2008
AASB 132	AASB 132	Disclosure only - no impact	31 December 2007	1 July 2008
AASB 133	AASB 133	Disclosure only - no impact	31 December 2007	1 July 2008
AASB 139	AASB 139	Disclosure only - no impact	31 December 2007	1 July 2008
AASB 2007-3	Various	Disclosure only - no impact	31 December 2009	1 July 2010
AASB 2007-4	Various	Disclosure only - no impact	30 June 2008	1 July 2008
AASB 2007-6	Various	Disclosure only - no impact	31 December 2009	1 July 2010
AASB 2007-7	Various	Disclosure only - no impact	30 June 2008	1 July 2009
Interpretation 10	N/A	Disclosure only - no impact	31 October 2007	1 July 2008

All other pending standards issued between the previous financial report and the current reporting dates have no application to either the parent entity or consolidated group.

AASB Amendment	AASB Standard Affected
AASB 4	AASB 4 Insurance Contracts
AASB 8	AASB 8 Operating Segments
AASB 117	AASB 8 Leases
AASB 123	AASB 123 Borrowing Costs
AASB 1023	AASB 1023 General Insurance Contracts
AASB 1038	AASB 1023 Insurance Contracts
AASB 1049	AASB 1049 Financial Reporting of General Government Sectors by Governments
AASB 2007-5	AASB 102 Inventories held for Distribution by Not-for-Profit Entities
Interpretation 4	N/A - Determining whether an arrangement contains a lease
Interpretation 11	N/A - Group and Treasury Share Transactions
Interpretation 12	N/A - Service Concession Arrangements

**Note 30** **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

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

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 9 to 28, 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 2007 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*

Dated this 21st day of September 2007



Director

\_\_\_\_\_  
*Mr Robert Schuitema*

Dated this 21st day of September 2007

**INDEPENDENT AUDITOR'S REPORT**

To the members of Phoslock Water Solutions Ltd and Controlled Entities

**Report on the Financial Report**

We have audited the accompanying financial report of Phoslock Water Solutions Ltd and Controlled Entities (the company), which comprises the balance sheets as at 30 June 2007, and the income statements, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and 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.

As permitted by the Corporations Regulation 2001, the company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), as required by Australian Accounting Standard AASB 124 Related Party Disclosures, under the heading Remuneration Report on pages 4-8 of the Director's report and not in the financial report. We have audited the remuneration disclosures on pages 4-8 of the Director's report.

**Directors' Responsibility for the Financial Report and the AASB 124 Remuneration Disclosures Contained in the Director's 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 designing, implementing and maintaining internal control 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 director's also state, in accordance with Australian 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.

The directors of the company are responsible for the remuneration disclosures contained in the Director's report.

**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. Our responsibility is to also express an opinion on the remuneration disclosures contained in the Director's report based on our audit.

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 and the remuneration disclosures contained in the Director's report.

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

Level 16, William Buck Centre, 120 Edward Street, Brisbane QLD 4000 • GPO Box 736, Brisbane QLD 4001  
T (61 7) 3233 3555 F (61 7) 3210 6183 E info@williambuckqld.com.au W www.williambuck.com.au

William Buck is an association of independent firms, each trading under the name of William Buck in Melbourne, Sydney, Brisbane, Adelaide, Perth and Cairns • Affiliated with AGN International

melbourne sydney brisbane adelaide perth cairns

strategic advice innovative solutions service excellence



**Independence**

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, was provided to the directors of Phoslock Water Solutions Ltd and Controlled Entities on the same date as the auditor's report

**AUDITOR'S OPINION**

In our opinion:

- (a) the financial report of Phoslock Water Solutions Ltd and Controlled Entities is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of company and consolidated entity's financial position as at 30 June 2007 and their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
  
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

In our opinion, the remuneration disclosures on pages 4-8 of the Director's report comply with Australian Accounting Standard AASB 124 Related Party Disclosures.

Signed at Brisbane, 24 September 2007



WILLIAM BUCK  
Chartered Accountants



D W LANGDON  
Partner

**William Buck**