

PHOSLOCK WATER SOLUTIONS LIMITED AND CONTROLLED ENTITIES

ABN: 88 099 555 290

**Annual Financial Report For The Year Ended
30 June 2006**

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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 2006.

Directors

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

Mr Robert Schuitema
Mr Brett Crowley
Dr David Garman
Mr Russell Brown

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

Company Secretary

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

Principal Activities

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

Operating Results

The consolidated loss of the economic entity after providing for income tax and eliminating outside equity interests amounted to \$3,640,320 (2005: (\$2,375,542)).

Dividends Paid or Recommended

No dividends have been paid or declared for payment in relation to the financial year ended 30 June 2006.

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. PWS has continued to build its sales and marketing team in Australia, Europe and UK as well as setting up licensees and distributors in New Zealand, United States, South Africa, Asia and Europe.

Major developments in the business segments are detailed below.

The Company has made major advances in the promotion of Phoslock to markets around the world. Phoslock Water Solutions Ltd's (PWS) objective is to establish Phoslock as the preferred method of controlling phosphorus in water bodies and avoiding excessive algal growth.

Production

Manufacture of Phoslock commenced in May 2005 at PWS's Joint Venture manufacturing operation near Kunming, China. A number of modifications at the manufacturing operation have been made over the last 12 months to ensure better reliability of operations and increased production. PWS has a number of employees in China overseeing operations and managing production and shipping.

An inventory of Phoslock has been built up in key locations around the world to support sales initiatives from PWS sales force, licencees, distributors and resellers.

Technical

Additional senior resources have been added to the Phoslock technical function. Major projects include improvements to the Phoslock production process, broadening the applicability of Phoslock to a wider range of applications, development of Phoslock non-dispersible pellets and evaluating new water treatment products.

Sales and Marketing

PWS has increased its company employed sales force from two at the beginning of the financial year to nine, in the territories where PWS operates without a licensee - Australia and UK.

Licensees are in place and selling meaningful quantities of product in New Zealand, United States and Canada, South Africa, Germany, Switzerland, Austria, The Netherlands, Belgium, Luxembourg and Poland.

The Company has signed an agreement to form a joint venture entity "Phoslock Africa" to market and sell Phoslock in the African region.

Since Phoslock became commercially available in Q2 2005, the Company, its licensees, distributors and resellers have completed over 50 applications on a range of projects including lakes, rivers, sewage treatment ponds, drinking water reservoirs, golf courses, wineries, prawn farms, community water features, enclosed docks and household ponds. The success of these applications is being used to rapidly expand the Phoslock business.

The Company currently has 10 custom built Phoslock application machines in various locations around the world. The Company is looking to rapidly expand the number of application machines in service over the coming year.

During the year PWS launched a retail product range (Phoslock in 1.25kg, 2.5kg and 5kg containers) which is now available in Australia and being rolled out in New Zealand, UK and South Africa. This product range is targeted towards the household pond, koi and other exotic fish pond markets.

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DIRECTORS' REPORT

Future Developments, Prospects and Business Strategies

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

- i. the proposed construction of a second Phoslock manufacturing plant. Given the expected rapid growth in Phoslock sales, the existing capacity of the company's China plant will be consumed. A second plant will mitigate the risks associated with a single production source.
- ii. expansion of sales distribution and global licensee network. The company will focus on rapid expansion of existing sales and marketing resources to support the increased global demand for the Phoslock product particularly in Australia, New Zealand, UK & Europe, South Africa, North America, China and the rest of Asia.
- iii. evaluation and development of other water treatment products which could be added to PWS's product range.

These developments, together with current strategies, are expected to assist in the achievement of the economic entity's short and long-term goals and development of new business opportunities.

Financial Position

The net assets of the economic entity have increased by \$620,890 from 30 June 2005 to \$7,941,604 in 2006. This net increase is a result of share issues and asset sales raising \$4.4m, largely offset by increased investment, in working capital and other non current assets. During the past four 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.

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 9th December 2005 the Company issued 9,500,000 ordinary shares at \$0.14 each to raise \$1,330,000 in additional working capital.
- ii. On the 16th December 2005 the Company issued 3,700,000 ordinary shares at \$0.20 as partial consideration for the purchase of the CSIRO Phoslock technology.
- iii. In March 2006 the Company issued 7,394,552 ordinary shares at \$0.14 under a shareholder purchase plan to raise a further \$1,035,237 in working capital.

Changes in controlled entities and divisions:

- i. On the 1st July 2005 the parent entity acquired the 51% shareholding of International Environmental Technology Solutions Pty Ltd (IETS) in the parent entity's China based manufacturing company, IETC Environmental Protection Technology (Kunming) Ltd lifting the parent entity shareholding to a controlling 71% stake. The purchase was satisfied by the issue of 2,071,832 shares in the parent entity and a cash consideration of \$100,000.
- ii. On the 10 August 2005 Phoslock Pty Ltd, a subsidiary of the parent entity, acquired the 48% minority shareholdings in US Phoslock licensee Purezza Marketing Inc to assume 100% control of the entity. 2,997,915 shares and 2,997,915 options in the parent company were issued as consideration for the purchase.

Adoption of Australian Equivalents to IFRS

As a result of the introduction of Australian equivalents to International Financial Reporting Standards (AIFRS), the Company's financial report has been prepared in accordance with those Standards. A reconciliation of adjustments arising on the transition to AIFRS is included in Note 2 to this report.

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, the Company's patented water technology product Phoslock has been certified under The National Industrial Chemicals Notification and Assessment Scheme (NICNAS). Guidelines for use of the technology are provided under this certification. The Company is committed to observing these guidelines, including, notification and approval as necessary, prior to use, of State Environmental Agencies and or appropriate regulatory authorities.

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

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DIRECTORS' REPORT

Information on Directors

Mr Robert Schuitema	—	Chairman (Executive)
Qualifications	—	BCA, CA, NZSIA
Experience	—	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
Interest in Shares and Options	—	2,400,000 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.
Mr Brett Crowley	—	Managing Director (Executive)
Qualifications	—	B Com, Dip Law, CA
Experience	—	Board member since September 2003, Former partner Ernst & Young Australia and Hong Kong, former Chairman and Director BSA Ltd.
Interest in Shares and Options	—	459,000 Ordinary Shares in Phoslock Water Solutions Limited and options to acquire a further 7,500,000 ordinary shares.
Special Responsibilities	—	Mr Crowley is a Member of the Audit Committee and Remuneration Committee.
Dr David Garman	—	Director (Non-executive)
Qualifications	—	Ph D (Syd), M. Sc(Syd), B.Sc (Sp Hons) London, MAICD
Experience	—	Board member since 2001, Non Executive Director Dolomatrix Ltd, 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.
Directorships held in other listed entities	—	Current director of Dolomatrix Limited (since July 2001)
Mr Russell Brown	—	Director (Non-executive)
Qualifications	—	B App Sc (Agri), Post Grad International Marketing (UTS)
Experience	—	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.

PHOSLOCK WATER SOLUTIONS LTD AND CONTROLLED ENTITIES
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DIRECTORS' REPORT

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. At this stage of the Company's development, performance has been based predominantly on achievement of objectives set during the review process. Future reviews will be based on achievement of forecast growth of the economic entity's revenues and profits. All bonuses and incentives will be 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 board's 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.

Performance Based Remuneration

At this stage of the Company's development executive director and executives remuneration packages do not contain a performance-based component. It is the intention of the board and remuneration committee to establish an incentive based component for executives based on performance measured against achievement of key performance indicators (KPIs). The intention of this program is to 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.

Details of Remuneration for Year Ended 30 June 2006

The remuneration for each director and each of the executive officers of the consolidated entity during the year was as follows:

	Salary, Fees and Commissions	Superannuation Contribution	Cash Bonus	Other	Options	Total
	\$	\$	\$	\$	\$	\$
Directors						
Mr Robert Schuitema	142,500	14,024	-	7,500	130,401	294,425
Mr Brett Crowley	215,000	20,750	-	20,000	117,400	373,150
Dr David Garman	45,000	-	-	-	13,001	58,001
Mr Russell Brown	45,000	-	-	-	13,001	58,001
	447,500	34,774	-	27,500	273,803	783,577
	Salary, Fees and Commissions	Superannuation	Cash Bonus	Other	Options	Total
	\$	\$	\$	\$	\$	\$
Specified Executives						
Mr Colin Upcroft	120,000	11,700	-	12,801	26,002	170,503
Mr Nigel Trill	97,500	8,775	-	-	26,002	132,277
Mr Andrew Winks	82,819	6,300	-	13,758	39,003	141,880
	300,319	26,775	-	26,559	91,007	444,660

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Performance Income as a Proportion of Total Remuneration

Executive directors and 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 2006

Options were issued to directors and executives as part of their remuneration. 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
	\$	%	\$	\$	\$
Directors					
Mr Robert Schuitema	130,401	44%	-	-	130,401
Mr Brett Crowley	117,400	31%	-	-	117,400
Dr David Garman	13,001	22%	-	-	13,001
Mr Russell Brown	13,001	22%	-	-	13,001
	273,803		-	-	273,803
Specified Executives					
Mr Colin Upcroft	26,002	15%	-	-	26,002
Mr Nigel Traili	26,002	20%	-	-	26,002
Mr Andrew Winks	39,003	27%	-	-	39,003
	91,007		-	-	91,007

Employment Contracts of Directors and Senior Executives

The employment conditions of the Managing Director, Executive Chairman and executives are formalised in contracts of employment. Other than the Managing Director and Executive Chairman, all executives are permanent employees of Phoslock Water Solutions Ltd. The Managing Director' and Executive Chairman's contracts expire 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, eight 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	6	6	1	1	1	1
Mr Brett Crowley	6	6	1	1	1	1
Dr David Garman	6	6	1	1	1	1
Mr Russell Brown	6	6	1	1	1	1

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DIRECTORS' REPORT

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 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.

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:

	<u>Number of options granted</u>
Directors	
Mr Robert Schuitema	7,000,000
Mr Brett Crowley	7,500,000
Dr David Garman	500,000
Mr Russell Brown	500,000
Executives	
Mr Colin Upcroft	500,000
Mr Nigel Traill	500,000
Mr Andrew Winks	500,000

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	4,200,000
10 June 2005	30 June 2008	\$0.20	2,500,000
10 June 2005	30 November 2008	\$0.20	1,500,000
10 August 2005	10 August 2010	\$0.22	2,997,913
24 November 2005	30 November 2008	\$0.20	7,000,000
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	200,000
31 May 2006	30 June 2009	\$0.20	100,000
15 August 2006	31 December 2008	\$0.20	200,000

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 6.

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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 for the year ended 30 June 2006 has been received and can be found on page 8 of the directors' report.

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

Director



Mr Brett Crowley - Managing Director

Dated this 28th day of September 2006

Director



Mr Robert Schuitema - Chairman of Directors

Dated this 28th day of September 2006

AUDITOR'S INDEPENDENCE DECLARATION

*Under Section 307c of the Corporations act 2001 to the directors of Phoslock Water Solutions Limited and
Controlled Entities*

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2006 there have been:

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

William Buck. *D W Langdon*

William Buck
Chartered Accountants

D W Langdon
Partner

Brisbane
29 September 2006

PHOSLOCK WATER SOLUTIONS LIMITED AND CONTROLLED ENTITIES
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INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

	Note	Economic Entity		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
Revenue	3	845,703	214,744	-	-
Cost of Sales		(438,253)	(122,729)	-	-
Gross Profit		407,450	92,015	-	-
Other income	3	488,424	-	-	-
Distribution expenses		(38,086)	(3,577)	-	-
Marketing expenses		(270,636)	(55,718)	-	-
Occupancy expenses		(187,951)	(151,947)	-	-
Administrative expenses		(1,004,126)	(594,443)	(4)	-
Employee benefits expense		(1,547,467)	(1,131,678)	-	-
Depreciation and amortisation		(531,858)	(394,101)	(52,758)	-
Loss on sale of property, plant and equipment		(596,455)	-	-	-
Other expenses		(362,328)	(176,612)	-	(1,949)
Share of net loss of associates and joint ventures		-	(32,969)	-	-
Loss before income tax	4	(3,643,033)	(2,449,030)	(52,762)	(1,949)
Income tax revenue / (expense)	5	-	39,859	-	-
Loss for the year		(3,643,033)	(2,409,171)	(52,762)	(1,949)
Loss attributable to minority equity interest		(2,713)	(33,629)	-	-
Loss attributable to members of the parent entity		(3,640,320)	(2,375,542)	(52,762)	(1,949)

Overall Operations

Basic earnings per share (cents per share)	8	(3.10)	(2.40)
Diluted earnings per share (cents per share)	8	(3.10)	(2.40)

The accompanying notes form part of these financial statements.

PHOSLOCK WATER SOLUTIONS LIMITED AND CONTROLLED ENTITIES

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BALANCE SHEET

AS AT 30 JUNE 2006

	Note	Economic Entity		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	9	2,077,697	1,631,192	5,343	-
Trade and other receivables	10	985,149	73,880	-	-
Inventories	11	960,127	38,147	-	-
Other current assets	17	55,862	105,466	-	-
TOTAL CURRENT ASSETS		4,078,835	1,848,685	5,343	-
NON-CURRENT ASSETS					
Trade and other receivables	10	400,000	-	11,376,124	8,817,807
Investments accounted for using the equity method	12	-	119,618	-	-
Financial assets	13	-	1,099	4,647,929	4,247,513
Property, plant and equipment	15	903,002	3,316,622	-	-
Intangible assets	16	3,590,862	2,313,641	1,213,456	-
TOTAL NON-CURRENT ASSETS		4,893,864	5,750,980	17,237,509	13,065,320
TOTAL ASSETS		8,972,699	7,599,665	17,242,852	13,065,320
CURRENT LIABILITIES					
Trade and other payables	18	866,665	162,280	-	-
Short-term provisions	19	132,373	116,671	-	-
TOTAL CURRENT LIABILITIES		999,038	278,951	-	-
NON-CURRENT LIABILITIES					
Other long-term provisions	19	32,057	-	-	-
TOTAL NON-CURRENT LIABILITIES		32,057	-	-	-
TOTAL LIABILITIES		1,031,095	278,951	-	-
NET ASSETS		7,941,604	7,320,714	17,242,852	13,065,320
EQUITY					
Issued capital	20	20,572,379	16,773,215	20,572,379	16,773,215
Reserves		745,652	296,065	732,564	301,434
Accumulated losses		(13,567,584)	(9,927,264)	(4,062,091)	(4,009,329)
Parent interest		7,750,447	7,142,016	17,242,852	13,065,320
Minority equity interest		191,157	178,698	-	-
TOTAL EQUITY		7,941,604	7,320,714	17,242,852	13,065,320

The accompanying notes form part of these financial statements.

PHOSLOCK WATER SOLUTIONS LIMITED AND CONTROLLED ENTITIES

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**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2006**

Note	Issued Share Capital	Accumulated Losses	Foreign Currency Translation Reserve	Option Reserve	Minority Equity Interests	Total
	\$	\$	\$	\$	\$	\$
Economic Entity						
Balance at 1 July 2004	2	13,876,370	(7,551,722)	1,552	-	6,326,200
Loss attributable to members of parent entity		-	(2,375,542)	-	-	(2,375,542)
Loss attributable to minority shareholders		-	-	-	178,698	178,698
Option reserve on recognition of employee options expense		-	-	301,434	-	301,434
Shares issued during the year		2,896,845	-	-	-	2,896,845
Adjustments from translation of foreign controlled entities		-	(6,921)	-	-	(6,921)
Balance at 30 June 2005		16,773,215	(9,927,264)	301,434	178,698	7,320,714
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
Loss attributable to members of parent entity		-	(3,640,320)	-	-	(3,640,320)
Loss attributable to minority shareholders		-	-	-	12,459	12,459
Adjustments from translation of foreign controlled entities		-	18,457	-	-	18,457
Balance at 30 June 2006		20,572,379	(13,567,584)	732,564	191,157	7,941,604

Note	Issued Share Capital	Accumulated Losses	Foreign Currency Translation	Option Reserve	Minority Equity Interests	Total
	\$	\$	\$	\$	\$	\$
Parent Entity						
Balance at 1 July 2004	2	13,876,370	(4,007,380)	-	-	9,868,990
Loss attributable to members of parent entity		-	(1,949)	-	-	(1,949)
Shares issued during the year		2,896,845	-	-	-	2,896,845
Option reserve on recognition of employee options expense		-	-	301,434	-	301,434
Balance at 30 June 2005		16,773,215	(4,009,329)	301,434	-	13,065,320
Shares issued during the year		3,885,318	-	-	-	3,885,318
Transaction costs		(86,154)	-	-	-	(86,154)
Loss attributable to members of parent entity		-	(52,762)	-	-	(52,762)
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
Balance at 30 June 2006		20,572,379	(4,062,091)	732,564	-	17,242,852

The accompanying notes form part of these financial statements.

PHOSLOCK WATER SOLUTIONS LIMITED AND CONTROLLED ENTITIES

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CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2006

	Note	Economic Entity		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		510,204	117,104	-	-
Interest received		27,044	68,675	-	-
Payments to suppliers and employees		(3,481,416)	(2,226,219)	(4)	-
Other Income		86,713	83,221	-	-
Research and Development Tax offset rebate		-	39,859	-	-
Net cash used in operating activities	25a	<u>(2,857,455)</u>	<u>(1,917,360)</u>	<u>(4)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		1,597,366	-	-	-
Proceeds from sale of investments		489,785	-	-	-
Purchase of property, plant and equipment		(459,089)	(124,399)	-	-
Purchase of investments		-	-	(2)	(1,448)
Purchase of other non-current assets		(581,459)	(58,299)	(470,000)	-
Payment for subsidiary, net of cash acquired	25b	<u>(50,713)</u>	<u>177,064</u>	<u>(50,713)</u>	<u>-</u>
Net cash provided by (used in) investing activities		<u>995,890</u>	<u>(5,634)</u>	<u>(520,715)</u>	<u>(1,448)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		2,365,237	3,000,000	2,365,237	3,000,000
Repayment of borrowings		-	-	(1,749,662)	(2,895,397)
Listing Costs		<u>(89,513)</u>	<u>(103,155)</u>	<u>(89,513)</u>	<u>(103,155)</u>
Net cash provided by financing activities		<u>2,275,724</u>	<u>2,896,845</u>	<u>526,062</u>	<u>1,448</u>
Net increase in cash held		414,159	973,851	5,343	-
Cash at beginning of financial year		1,631,192	664,469	-	-
Effect of exchange rates on cash holdings in foreign currencies		<u>32,346</u>	<u>(7,128)</u>	<u>-</u>	<u>-</u>
Cash at end of financial year	9	<u><u>2,077,697</u></u>	<u><u>1,631,192</u></u>	<u><u>5,343</u></u>	<u><u>-</u></u>

The accompanying notes form part of these financial statements.

PHOSLOCK WATER SOLUTIONS LIMITED AND CONTROLLED ENTITIES

ABN: 88 099 555 290

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

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, Urgent Issues Group Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the economic entity 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 comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

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

Basis of Preparation

First-time Adoption of Australian Equivalents to International Financial Reporting Standards

Phoslock Water Solutions Limited and controlled entities, and Phoslock Water Solutions Limited as an individual parent entity have prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS) from 1 July 2005

In accordance with the requirements of AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the parent entity and consolidated entity accounts resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These consolidated accounts are the first financial statements of Phoslock Water Solutions Limited and controlled entities to be prepared in accordance with Australian equivalents to IFRS.

The accounting policies set out below have been consistently applied to all years presented. The parent and consolidated entities have however elected to adopt the exemptions available under AASB 1 relating to AASB 132: Financial Instruments: Disclosure and Presentation, and AASB 139: Financial Instruments: Recognition and Measurement. Refer to Note 29 for further details on changes in accounting policy.

Reconciliations of the transition from previous Australian GAAP to AIFRS have been included in Note 2 to this report.

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 with the exception of IETC Environmental Protection Technology (Kunming) Ltd which has a 31 December year-end.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the economic entity 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 economic entity 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 liabilities 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.

PHOSLOCK WATER SOLUTIONS LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

(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.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight-line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

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 are transferred to entities in the economic entity are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(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. 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.

(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.

PHOSLOCK WATER SOLUTIONS LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS
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(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 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 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.

(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 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 and deposits held at call with banks.

PHOSLOCK WATER SOLUTIONS LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS
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(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 impairment has been recognised in respect of goodwill for the year ended 30 June 2006.

PHOSLOCK WATER SOLUTIONS LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

Note 2

First-time Adoption of Australian Equivalents to International Financial Reporting Standards

	Previous GAAP at 1 July 2004 \$	Effect of Transition to Australian Equivalents to IFRS to IFRS \$	Australian Equivalents to IFRS at 1 July 2004 \$
Economic Entity			
Reconciliation of Equity at 1 July 2004			
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	664,469	-	664,469
Trade and other receivables	37,669	-	37,669
Inventories	37,021	-	37,021
Other current assets	13,394	-	13,394
TOTAL CURRENT ASSETS	752,553	-	752,553
NON-CURRENT ASSETS			
Investments accounted for using the equity method	152,587	-	152,587
Financial assets	3,048	-	3,048
Property, plant and equipment	3,417,355	-	3,417,355
Intangible assets	2,645,565	(225,368)	2,420,197
TOTAL NON-CURRENT ASSETS	6,218,555	(225,368)	5,993,187
TOTAL ASSETS	6,971,108	(225,368)	6,745,740
CURRENT LIABILITIES			
Trade and other payables	297,185	-	297,185
Short-term provisions	122,354	-	122,354
TOTAL CURRENT LIABILITIES	419,539	-	419,539
TOTAL LIABILITIES	419,539	-	419,539
NET ASSETS	6,551,569	(225,368)	6,326,201
EQUITY			
Issued capital	13,876,370	-	13,876,370
Reserves	1,552	-	1,552
Accumulated losses	(7,326,353)	(225,368)	(7,551,721)
Parent interest	6,551,569	(225,368)	6,326,201
Minority equity interest	-	-	-
TOTAL EQUITY	6,551,569	(225,368)	6,326,201

PHOSLOCK WATER SOLUTIONS LIMITED AND CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	Previous GAAP at 30 June 2005 \$	Effect of Transition to Australian Equivalents to IFRS to IFRS \$	Australian Equivalents to IFRS at 30 June 2005 \$
Economic Entity			
Reconciliation of Equity at 30 June 2005			
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	1,631,192	-	1,631,192
Trade and other receivables	73,880	-	73,880
Inventories	38,147	-	38,147
Other current assets	105,466	-	105,466
TOTAL CURRENT ASSETS	1,848,685	-	1,848,685
NON-CURRENT ASSETS			
Investments accounted for using the equity method	119,618	-	119,618
Financial assets	1,099	-	1,099
Property, plant and equipment	3,316,622	-	3,316,622
Intangible assets	2,523,781	(210,140)	2,313,641
TOTAL NON-CURRENT ASSETS	5,961,120	(210,140)	5,750,980
TOTAL ASSETS	7,809,805	(210,140)	7,599,665
CURRENT LIABILITIES			
Trade and other payables	162,280	-	162,280
Short-term provisions	116,671	-	116,671
TOTAL CURRENT LIABILITIES	278,951	-	278,951
TOTAL LIABILITIES	278,951	-	278,951
NET ASSETS	7,530,854	(210,140)	7,320,714
EQUITY			
Issued capital	16,773,215	-	16,773,215
Reserves	(5,369)	301,434	296,065
Accumulated losses	(9,415,690)	(511,574)	(9,927,264)
Parent interest	7,352,156	(210,140)	7,142,016
Minority equity interest	178,698	-	178,698
TOTAL EQUITY	7,530,854	(210,140)	7,320,714

PHOSLOCK WATER SOLUTIONS LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS
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	Previous GAAP at 1 July 2004 \$	Effect of Transition to Australian Equivalents to IFRS to IFRS \$	Australian Equivalents to IFRS at 1 July 2004 \$
Parent Entity			
Reconciliation of Equity at 1 July 2004			
ASSETS			
NON-CURRENT ASSETS			
Trade and other receivables	5,620,977	-	5,620,977
Other financial assets	4,248,013	-	4,248,013
TOTAL NON-CURRENT ASSETS	9,868,990	-	9,868,990
TOTAL ASSETS	9,868,990	-	9,868,990
NET ASSETS	9,868,990	-	9,868,990
EQUITY			
Issued capital	13,876,370	-	13,876,370
Accumulated losses	(4,007,380)	-	(4,007,380)
TOTAL EQUITY	9,868,990	-	9,868,990
	Previous GAAP at 30 June 2005 \$	Effect of Transition to Australian Equivalents to IFRS to IFRS \$	Australian Equivalents to IFRS at 30 June 2005 \$
Parent Entity			
Reconciliation of Equity at 30 June 2005			
ASSETS			
NON CURRENT ASSETS			
Trade and other receivables	8,516,373	301,434	8,817,807
Financial assets	4,247,513	-	4,247,513
TOTAL NON-CURRENT ASSETS	12,763,886	301,434	13,065,320
TOTAL ASSETS	12,763,886	301,434	13,065,320
NET ASSETS	12,763,886	301,434	13,065,320
EQUITY			
Issued capital	16,773,215	-	16,773,215
Reserves	-	301,434	301,434
Accumulated losses	(4,009,329)	-	(4,009,329)
TOTAL EQUITY	12,763,886	301,434	13,065,320

PHOSLOCK WATER SOLUTIONS LIMITED AND CONTROLLED ENTITIES

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

	Previous GAAP 2005 \$	Effect of Transition to Australian Equivalents to IFRS 2005 \$	Australian Equivalents to IFRS 2005 \$
Economic Entity			
Reconciliation of Profit or Loss for 2005			
Sales Revenue	99,440	-	99,440
Cost of Sales	(122,729)	-	(122,729)
Gross Profit	(23,289)	-	(23,289)
Other income	115,304	-	115,304
Distribution expenses	(3,577)	-	(3,577)
Marketing expenses	(55,718)	-	(55,718)
Occupancy expenses	(151,947)	-	(151,947)
Administrative expenses	(594,443)	-	(594,443)
Employee benefits expense	(830,244)	(301,434)	(1,131,678)
Depreciation and Amortisation	(409,329)	15,228	(394,101)
Other expenses	(176,612)	-	(176,612)
Share of net losses of associates and joint ventures	(32,969)	-	(32,969)
Loss before income tax expense	(2,162,824)	(286,206)	(2,449,030)
Income tax expense	39,859	-	39,859
Loss for the year	(2,122,965)	(286,206)	(2,409,171)
Loss attributable to minority equity interest	(33,629)	-	(33,629)
Loss attributable to members of the parent entity	(2,156,594)	(286,206)	(2,442,800)

Parent Entity

Reconciliation of Profit or Loss for 2005

Other expenses	(1,949)	-	(1,949)
Loss before income tax expense	(1,949)	-	(1,949)
Income tax expense	-	-	-
Loss for the year	(1,949)	-	(1,949)
Loss attributable to minority equity interest	-	-	-
Loss attributable to members of the parent entity	(1,949)	-	(1,949)

Notes to the reconciliations of equity and profit and loss at 1 July 2004 and 30 June 2005

(a) Adjustments to profit / loss comprise:

Economic Entity

Depreciation and Amortisation - Write off of capitalised research expenses	15,228	(225,368)
Employee benefits expense - Expensing of employee share options	(301,434)	-
Total	(286,206)	(225,368)

(b) Adjustment to reserves comprise:

Economic Entity

Option reserve of valuation of employee share options	301,434	-
---	---------	---

Parent Entity

Option reserve of valuation of employee share options	301,434	-
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(c) Adjustments to retained earnings comprise:

Economic Entity

Write off of capitalised research expenses	-	(225,368)
Expensing of employee share options	(301,434)	-
Total	(301,434)	(225,368)

PHOSLOCK WATER SOLUTIONS LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

Note 3 Revenue

	Note	Economic Entity		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
Operating activities					
— sale of goods		765,139	99,440	-	-
— interest received	3(a)	25,749	68,695	-	-
— royalties		54,815	46,609	-	-
Total Revenue		845,703	214,744	-	-
Non-operating activities					
— gains on disposal of non-current investments		488,424	-	-	-
Other Income		488,424	-	-	-
 (a) Interest revenue from:					
..... other persons		25,749	68,695	-	-
Total interest revenue		25,749	68,695	-	-

Note 4 Loss before Income Tax

		Economic Entity		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
(a) Expenses					
Cost of sales		438,253	122,729	-	-
Impairment of non-current investments to recoverable amount		342,584	-	-	-
Bad and doubtful debts:					
..... trade receivables		4,000	-	-	-
Rental expense on operating leases					
..... minimum lease payments		187,951	151,812	-	-
Royalties - Bentonite		-	14,553	-	-
Depreciation of property, plant and equipment		59,255	21,345	-	-
Amortisation of non-current assets		-	-	-	-
- bentonite mine		206,757	203,556	-	-
- research and development expenditure		6,839	22,152	-	-
- Phoslock licence, patents and trademarks		259,007	162,276	52,758	-
Total amortisation		472,603	387,984	52,758	-
Write-down of inventories		20,621	50,041	-	-
 (b) Significant Revenue and Expenses					
The following significant revenue and expense items are relevant in explaining the financial performance:					
Sale of Bentonite Mining Tenements					
Carrying amount of net assets sold		3,066,534			
Consideration on disposal		2,471,236			
Net loss on disposal		(595,298)			
Sale of Puda Share Investment					
Carrying amount of net assets sold		1,099			
Consideration on disposal		489,523			
Net gain on disposal		488,424			

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NOTES TO THE FINANCIAL STATEMENTS
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Note 5 **Income Tax (Revenue) / Expense**

	Note	Economic Entity		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
(a) The components of tax expense / (benefit) comprise:					
Current tax		-	(39,859)	-	-
		-	(39,859)	-	-
(b) The prima facie tax on loss before income tax is reconciled to the income tax as follows					
Prima facie tax payable on loss before income tax at 30% (2005: 30%)		(1,092,910)	(734,709)	(15,829)	(585)
Add:					
Tax effect of:					
..... non-deductible depreciation and amortisation		134,026	109,750	15,828	-
..... other non-allowable items		959	359	-	-
..... write-downs to recoverable amounts		102,775	-	-	-
..... share options expensed during year		96,302	-	-	-
..... other items		38,129	-	-	-
..... FITB'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		740,323	585,297	20,609	21,193
		19,604	(39,303)	20,608	20,608
Less:					
Tax effect of:					
..... share of losses of associates and joint venture entities netted directly		-	(51,681)	-	-
..... Other tax concessions & deductible amounts		19,604	52,237	20,608	20,608
Income tax attributable to entity		-	(39,859)	-	-

PHOSLOCK WATER SOLUTIONS LIMITED AND CONTROLLED ENTITIES

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Note 6 Key Management Personnel Compensation

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

Key Management Person	Position
Mr Robert Schuitema	Chairman - Executive
Mr Brett Crowley	Managing Director - Executive
Dr David Garman	Director - Non Executive
Mr Russell Brown	Director - Non Executive
Mr Colin Upcroft	Chief Financial Officer and Company Secretary
Mr Andrew Winks	Group Operations Manager
Mr Nigel Trail	Regional Manager Europe Africa and The Middle East

(b) Compensation Practices

The board's policy for determining the nature and amount of compensation of key management for the group is as follows:

The compensation structure for key management personnel is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the company. The contracts for service between the company and key management personnel are reviewed on a continuing basis, the terms of which are not expected to change in the immediate future. Upon retirement key management personnel are paid employee benefit entitlements accrued to date of retirement. Any options not exercised before or on the date of termination lapse.

The group seeks to emphasise payment for results through providing incentive payments via issue of share options based on the achievement of earnings targets. This condition provides management with a performance target focused upon organic sales growth utilising existing group resources.

The objective of the incentive scheme is to both reinforce the short and long-term goals of the group and to provide a common interest between management and shareholders.

The Remuneration Committee determines the proportion of fixed and variable compensation for each key management personnel. Refer Note 6(c).

(c) Key Management Personnel Compensation

	Short-term benefits		Post Employment Benefits	Share-based payment	Total	Performance related
	Salary Fees and Commission	Other	Super-annuation	Options		
	\$	\$	\$	\$	\$	%
2006						
Key Management Person						
Mr Robert Schuitema	142,500	7,500	14,024	130,401	294,425	44%
Mr Brett Crowley	215,000	20,000	20,750	117,400	373,150	31%
Dr David Garman	45,000	-	-	13,001	58,001	22%
Mr Russell Brown	45,000	-	-	13,001	58,001	22%
Mr Colin Upcroft	120,000	12,801	11,700	26,002	170,503	15%
Mr Andrew Winks	82,819	13,758	6,300	39,003	141,880	27%
Mr Nigel Trail	97,500	-	8,775	26,002	132,277	20%
	747,819	54,059	61,549	364,810	1,228,237	

	Short-term benefits		Post Employment Benefits	Share-based payment	Total	Performance related
	Salary Fees and Commission	Other	Super-annuation	Options		
	\$	\$	\$	\$	\$	%
2005						
Key Management Person						
Mr Robert Schuitema	22,500	-	2,025	-	24,525	-
Mr Brett Crowley	203,495	20,000	19,087	71,770	314,352	23%
Dr David Garman	41,284	-	3,716	28,708	73,708	39%
Mr Russell Brown	-	-	-	-	-	-
Mr Yunhui Liu	-	-	-	-	-	-
Mr Joël Bidois	134,311	60,000	12,184	71,770	278,265	26%
Mr Leo Respingier	-	-	-	-	-	-
Mr Colin Upcroft	117,205	12,058	11,448	35,885	176,596	20%
Mr Andrew Winks	16,333	4,235	1,470	-	22,038	-
Mr Nigel Trail	81,250	25,000	9,562	57,416	173,228	33%
	616,378	121,293	59,492	265,549	1,062,712	

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(d) Compensation Options

Options Granted as Compensation

	Vested No.	Granted No.	Grant Date	Value per Option at Grant Date \$	Terms & Conditions for Each Grant		
					Exercise Price \$	First Exercise Date	Last Exercise Date
Key Management Person							
Mr Robert Schuitema	3,000,000	3,000,000	24.11.2005	0.026	0.20	30.11.2005	30.11.2008
	-	2,000,000	24.11.2005	0.015	0.30	30.11.2006	30.11.2009
	-	2,000,000	24.11.2005	0.011	0.40	30.11.2007	30.11.2010
Mr Brett Crowley	2,500,000	2,500,000	24.11.2005	0.026	0.20	30.11.2005	30.11.2008
	-	2,000,000	24.11.2005	0.015	0.30	30.11.2006	30.11.2009
	-	2,000,000	24.11.2005	0.011	0.40	30.11.2007	30.11.2010
Dr David Garman	500,000	500,000	24.11.2005	0.026	0.20	30.11.2005	30.11.2008
Mr Russell Brown	500,000	500,000	24.11.2005	0.026	0.20	30.11.2005	30.11.2008
Mr Colin Upcroft	500,000	500,000	24.11.2005	0.026	0.20	31.03.2006	30.11.2008
Mr Andrew Winks	500,000	500,000	24.11.2005	0.026	0.20	31.03.2006	30.11.2008
Mr Nigel Trail	500,000	500,000	24.11.2005	0.026	0.20	31.03.2006	30.11.2008
	<u>8,000,000</u>	<u>16,000,000</u>					

All options granted vest within one to three years of grant date and expire within three years of vesting.

Exercise prices have been determined with reference to the listed market price for Phoslock Water Solutions Ltd securities.

The service and performance criteria set to determine compensation are included per Note 6(b) and Note 26.

All options were granted for Nil consideration.

(e) Options and Rights Holdings

Number of Options Held by Key Management Personnel

	Balance 1.07.2005	Granted as Compensation	Options Exercised*	Net Change Other*	Balance 30.06.2006	Total Vested 30.06.2006	Total Exercisable 30.06.2006	Total Unexercisable 30.06.2006
2006								
Mr Robert Schuitema	-	7,000,000	-	-	7,000,000	3,000,000	3,000,000	4,000,000
Mr Brett Crowley	4,000,000	6,500,000	-	(3,000,000)	7,500,000	3,500,000	3,500,000	4,000,000
Dr David Garman	400,000	500,000	-	-	900,000	900,000	900,000	-
Mr Russell Brown	-	500,000	-	-	500,000	500,000	500,000	-
Mr Colin Upcroft	1,000,000	500,000	-	-	1,500,000	1,500,000	1,500,000	-
Mr Andrew Winks	1,000,000	500,000	-	-	1,500,000	1,500,000	1,500,000	-
Mr Nigel Trail	1,300,000	500,000	-	-	1,800,000	1,800,000	1,800,000	-
	<u>7,700,000</u>	<u>16,000,000</u>	<u>-</u>	<u>(3,000,000)</u>	<u>20,700,000</u>	<u>12,700,000</u>	<u>12,700,000</u>	<u>8,000,000</u>

The net change other column above includes those options that have lapsed during the year under review.

(f) Shareholdings

Number of Shares held by Key Management Personnel

	Balance 30.06.2005	Received as Compensation	Options Exercised	Net Change Other*	Balance 30.06.2006
2006					
Key Management Personnel					
Mr Robert Schuitema	1,975,000	-	-	425,000	2,400,000
Mr Brett Crowley	214,000	-	-	245,000	459,000
Dr David Garman	400,000	-	-	-	400,000
Mr Russell Brown	-	-	-	-	-
Mr Colin Upcroft	-	-	-	-	-
Mr Andrew Winks	-	-	-	-	-
Mr Nigel Trail	2,300,529	-	-	-	2,300,529
	<u>4,889,529</u>	<u>-</u>	<u>-</u>	<u>670,000</u>	<u>5,559,529</u>

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

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Note 7 Auditors' Remuneration

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Remuneration of the auditor of the parent entity for:				
— auditing or reviewing the financial report	25,474	16,990	4,283	2,965
Remuneration of other auditors of subsidiaries for:				
— auditing or reviewing the financial report of subsidiaries	3,148	-	-	-

Note 8 Earnings per Share

	Economic Entity	
	2006	2005
	\$	\$
(a) Reconciliation of earnings to profit or loss		
Loss	(3,643,033)	(2,409,171)
Losses attributable to minority equity interest	2,713	33,629
Earnings used to calculate basic EPS	<u>(3,640,320)</u>	<u>(2,375,542)</u>
Earnings used in the calculation of dilutive EPS	<u>(3,640,320)</u>	<u>(2,375,542)</u>
(b) Reconciliation of earnings to profit or loss from continuing operations		
Loss from continuing operations	(3,643,033)	(2,409,171)
Loss attributable to minority equity interest in respect of continuing operations	2,713	33,629
Earnings used to calculate basic EPS from continuing operations	<u>(3,640,320)</u>	<u>(2,375,542)</u>
Earnings used in the calculation of dilutive EPS from continuing operations	<u>(3,640,320)</u>	<u>(2,375,542)</u>
(c) Weighted average number of ordinary shares outstanding during the year used in calculating basic and dilutive EPS	<u>No.</u>	<u>No.</u>
	117,260,231	99,132,097
(d) Classification of securities		
The 30,147,913 options remaining unconverted at year-end are not included in basic or dilutive EPS as the exercise of the options is contingent upon future events.		
As at reporting date, conditions which would result in the exercise of the options and issue of shares had not been met.		

Note 9 Cash and Cash Equivalents

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Cash at bank and in hand	2,013,120	635,078	5,343	-
Short-term bank deposits	64,577	996,114	-	-
	<u>2,077,697</u>	<u>1,631,192</u>	<u>5,343</u>	<u>-</u>

The effective interest rate on short-term bank deposits was 5.5% (2005: 5.47%); 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	2,077,697	1,631,192	5,343	-
	<u>2,077,697</u>	<u>1,631,192</u>	<u>5,343</u>	<u>-</u>

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Note 10 Trade and Other Receivables

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
CURRENT				
Trade receivables	397,221	48,767	-	-
Provision for impairment of receivables	(8,000)	(4,000)	-	-
	389,221	44,767	-	-
Other receivables	595,928	19,348	-	-
Amounts receivable from:				
— associated companies	-	9,765	-	-
	985,149	73,880	-	-
NON-CURRENT				
Other receivables	400,000	-	-	-
Amounts receivable from:				
— wholly-owned entities	-	-	11,376,124	8,817,807
	400,000	-	11,376,124	8,817,807

Note 11 Inventories

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
CURRENT				
At cost				
Raw materials and stores	122,502	693	-	-
Finished goods	837,625	-	-	-
	960,127	693	-	-
At net realisable value				
Raw materials and stores	-	18,503	-	-
Finished goods	-	18,951	-	-
	-	37,454	-	-
	960,127	38,147	-	-

Note 12 Investments Accounted for Using the Equity Method

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
NON CURRENT				
Associated companies	-	119,618	-	-
	-	119,618	-	-

Note 13 Financial Assets

	Note	Economic Entity		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
NON CURRENT					
Available-for-sale financial assets	13(a)	-	1,099	4,647,929	4,247,513
		-	1,099	4,647,929	4,247,513
(a) Available-for-sale financial assets Comprise:					
NON CURRENT					
Unlisted investments, at cost					
..... shares in controlled entities		-	-	4,647,929	4,079,183
..... shares in other corporations		-	1,099	-	-
..... shares in associates		-	-	-	168,330
Total non-current available-for-sale financial assets		-	1,099	4,647,929	4,247,513

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Note 14 Controlled Entities

(a) Controlled Entities Consolidated

	Country of Incorporation	Percentage Owned (%)*	
		2006	2005
Parent Entity:			
Phoslock Water Solutions Limited and Controlled Entities	Australia		
Subsidiaries of Phoslock Water Solutions Limited:			
Phoslock Pty Ltd	Australia	100	100
Yunnan Jinxiangyan Environmental Conservational Consultative Co Ltd	China	100	100
Phoslock Water Solutions UK (Co) Limited **	UK	100	-
IETC Environmental Protection Technology (Kunming) Ltd	China	71	20
Phoslock Technologies Pty Ltd **	Australia	100	-
Subsidiaries of Phoslock Pty Ltd:			
Purezza Marketing Inc	USA	100	52

* Percentage of voting power is in proportion to ownership

** Phoslock Water Solutions UK (Co) Limited was incorporated in June 2006 with a total capital contribution of \$2.

** Phoslock Technologies Pty Ltd was incorporated in December 2005 with a total capital contribution of \$1.

(b) Acquisition of Controlled Entities

On the 1st July 2005 the parent entity acquired the 51% shareholding of International Environmental Technology Solutions Pty Ltd (IETS) in the parent entity's China based manufacturing company, IETC Environmental Protection Technology (Kunming) Ltd increasing the parent entity shareholding to a controlling 71% stake. The purchase was satisfied by the issue of 2,071,832 shares in the parent entity and a cash consideration of \$100,000.

On the 10th August 2005 Phoslock Pty Ltd, a subsidiary of the parent entity, acquired the 48% minority shareholdings in US Phoslock licensee Purezza Marketing Inc to assume 100% control of the entity. 2,997,913 shares and 2,997,913 options in the parent company were issued as consideration for the purchase.

Note 15 Property, Plant and Equipment

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
BENTONITE MINE				
At Directors' valuation 2003	-	3,500,000	-	-
Accumulated amortisation	-	(300,778)	-	-
Total Bentonite Mine	-	3,199,222	-	-
PLANT AND EQUIPMENT				
Plant and equipment:				
At cost	1,071,483	157,025	-	-
Accumulated amortisation	(168,481)	(39,625)	-	-
Total Plant and Equipment	903,002	117,400	-	-
Total Property, Plant and Equipment	903,002	3,316,622	-	-

(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.

	Bentonite Mine	Plant and Equipment	Total
	\$	\$	\$
Economic Entity:			
Balance at the beginning of year	3,199,222	117,400	3,316,622
Additions	108,069	558,970	665,039
Disposals	(3,100,534)	(2,065)	(3,102,599)
Additions through acquisition of entity	-	343,715	343,715
Depreciation expense	(206,757)	(113,018)	(319,775)
Carrying amount at the end of year	-	903,002	903,002

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Note 16 **Intangible Assets**

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Goodwill				
Cost	401,977	-	-	-
Accumulated impairment losses	(342,584)	-	-	-
Net carrying value	59,393	-	-	-
Phoslock patents, trademarks and licences				
Cost	3,906,314	2,390,429	1,266,214	-
Accumulated amortisation and impairment	(453,494)	(162,276)	(52,758)	-
Net carrying value	3,452,820	2,228,153	1,213,456	-
Development costs				
Cost	317,780	317,780	-	-
Accumulated amortisation and impairment	(239,131)	(232,292)	-	-
Net carrying value	78,649	85,488	-	-
Total intangibles	3,590,862	2,313,641	1,213,456	-

Economic Entity:

	Goodwill	Trademarks & Licences	Development Costs
	\$	\$	\$
Year ended 30 June 2005			
Balance at the beginning of year	-	2,252,984	107,640
Additions	-	137,445	-
Disposals	-	-	-
Amortisation charge	-	(162,276)	(22,152)
Impairment losses	-	-	-
Closing carrying value at 30 June 2005	-	2,228,153	85,488
Year ended 30 June 2006			
Balance at the beginning of year	-	2,228,153	85,488
Additions	-	1,284,107	-
Acquisitions through business combinations	401,977	199,567	-
Amortisation charge	-	(259,007)	(6,839)
Impairment losses	(342,584)	-	-
Closing carrying value at 30 June 2006	59,393	3,452,820	78,649

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.

Impairment Disclosures

Goodwill is allocated to cash-generating units which are based on the group's reporting segments

	2006	2005
	\$	\$
China manufacturing segment	59,393	-
Total	59,393	-

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 11 years. The cash flows are discounted at a pre-tax rate of 14%.

Management has based the value-in-use calculation 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.

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Note 17 Other Current Assets

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Prepayments	55,862	105,466	-	-
	<u>55,862</u>	<u>105,466</u>	<u>-</u>	<u>-</u>

Note 18 Trade and Other Payables

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
CURRENT				
Unsecured liabilities				
Trade payables	473,682	40,871	-	-
Sundry payables and accrued expenses	392,983	121,409	-	-
	<u>866,665</u>	<u>162,280</u>	<u>-</u>	<u>-</u>

Note 19 Provisions

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
CURRENT				
Mine Restorations				
Opening balance at beginning of year	25,000	-	-	-
Additional provisions raised during year	9,000	25,000	-	-
Unused amounts reversed	(34,000)	-	-	-
Balance at end of the year	<u>-</u>	<u>25,000</u>	<u>-</u>	<u>-</u>
Employee Entitlements				
Opening balance at beginning of year	91,671	97,354	-	-
Additional provisions raised during year	63,702	28,663	-	-
Amounts used	(23,000)	(34,346)	-	-
Balance at end of the year	<u>132,373</u>	<u>91,671</u>	<u>-</u>	<u>-</u>

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
NON CURRENT				
Employee Entitlements				
Opening balance at beginning of year	-	-	-	-
Additional provisions raised during year	32,057	-	-	-
Balance at end of the year	<u>32,057</u>	<u>-</u>	<u>-</u>	<u>-</u>

Analysis of Total Provisions

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Current	132,373	116,671	-	-
Non-current	32,057	-	-	-
	<u>164,430</u>	<u>116,671</u>	<u>-</u>	<u>-</u>

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.

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Note 20 Issued Capital

130,323,784 (2005: 104,659,494) fully paid ordinary shares

Economic Entity		Parent Entity	
2006	2005	2006	2005
\$	\$	\$	\$
20,572,379	16,773,215	20,572,379	16,773,215
20,572,379	16,773,215	20,572,379	16,773,215

(a) Ordinary Shares

At the beginning of reporting period
Shares issued during year

Economic Entity		Parent Entity	
2006	2005	2006	2005
No.	No.	No.	No.
104,659,494	89,659,494	104,659,494	89,659,494
—	8 September 2004	-	7,500,000
—	17 January 2005	-	7,500,000
—	6 October 2005	2,997,915	-
—	7 December 2005	9,500,000	-
—	16 December 2005	3,700,000	-
—	3 January 2006	2,071,823	-
—	20 March 2006	5,137,802	-
—	30 March 2006	2,256,750	-
130,323,784	104,659,494	130,323,784	104,659,494

At reporting date

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

For information relating to share options issued to key management personnel during the financial year refer to Note 26 Share based payments.

Note 21 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 22 Capital and Leasing Commitments

(a) Operating Lease Commitments

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

Payable — minimum lease payments

— not later than 12 months

— between 12 months and 5 years

— greater than 5 years

Economic Entity		Parent Entity	
2006	2005	2006	2005
\$	\$	\$	\$
178,227	84,666	-	-
219,497	130,730	-	-
70,833	-	-	-
468,557	215,396	-	-

Seven property leases are current at reporting date:

Lease 1 is a non-cancellable lease expiring in January 2007, with rent payable monthly in advance. This lease will not be renewed.

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 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 4 is a non-cancellable lease with a one year term, rent is payable monthly in advance. No option exists to renew the lease at the end of the one-year term.

Lease 5 is cancellable with a two month notice period required. Rent is payable monthly in advance. No renewal option exists.

Lease 6 is a non-cancellable lease expiring in January 2007, with rent payable monthly in advance. No renewal options presently exist.

Lease 7 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.

PHOSLOCK WATER SOLUTIONS LIMITED AND CONTROLLED ENTITIES

ABN: 88 099 555 290

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

Note 23

Segment Reporting

	Environmental Technologies		Bentonite Mining		Eliminations		Economic Entity	
	2006	2005	2006	2005	2006	2005	2006	2005
	\$	\$	\$	\$	\$	\$	\$	\$
Primary Reporting — Business Segments								
REVENUE								
External Sales	760,339	85,360	59,615	60,689	-	-	819,954	146,049
Other segments								
Total sales revenue	760,339	85,360	59,615	60,689	-	-	819,954	146,049
Unallocated revenue							25,749	88,895
Total revenue							845,703	214,744
RESULT								
Segment result	(2,911,982)	(1,711,890)	(244,398)	(175,396)	-	-	(3,156,380)	(1,887,286)
Unallocated expenses net of unallocated revenue							(486,653)	(561,084)
Finance Costs								
Share of net profits of associates and joint venture entities							2,713	32,969
Profit before income tax							(3,640,320)	(2,415,401)
Income tax expense							-	39,859
Income Tax (Expense) / benefit							(3,640,320)	(2,375,542)
Profit after income tax								
ASSETS								
Segment assets	8,484,338	4,351,612	400,000	3,211,073			8,884,338	7,562,685
Unallocated assets							88,361	36,980
Discontinued operations assets								
Total assets							8,972,699	7,599,665
LIABILITIES								
Segment liabilities	880,618	93,323	73,301	38,838			953,919	132,161
Unallocated liabilities							77,176	146,790
Discontinued operations liabilities								
Total liabilities							1,031,095	278,951
OTHER								
Investments accounted for using the equity method	-	119,618	-	-	-	-	-	119,618
Acquisitions of non-current segment assets	1,839,126	186,813	-	-	-	-	1,839,126	186,813
Depreciation and amortisation of segment assets	378,864	190,545	208,757	203,556	-	-	585,621	394,101

Secondary Reporting — Geographical Segments

	Segment Revenues from External Customers		Carrying Amount of Segment Assets		Acquisitions of Non-current Segment Assets	
	2006	2005	2006	2005	2006	2005
	\$	\$	\$	\$	\$	\$
Geographical location:						
Australia	308,193	99,541	7,319,331	7,215,642	1,556,272	186,813
China	-	-	1,456,213	13,627	254,669	-
USA	271,096	2,522	-	-	-	-
Other Countries	240,665	43,986	197,155	370,396	28,185	-
	819,954	146,049	8,972,699	7,599,665	1,839,126	186,813

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 economic entity at arm's length. These transfers are eliminated on consolidation.

Business and Geographical Segments

Business segments

The economic entity has the following two business segments:

- The Environmental Technology segment is responsible for the development, manufacture and sale of environmental technology products. The major product line is a water treatment technology known as Phoslock.
- The mining segment divested its interest in bentonite mining tenements during the year but continues to receive royalty revenues based on tons sold from the resource.

Geographical segments

The economic entity's business segments are located in Australia, China, UK and USA. Management, sales and administration are based in Australia with manufacturing operations located in China. The company also has a sales operation based in the UK and sales representation in Europe.

PHOSLOCK WATER SOLUTIONS LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

Note 24 **Contingent Liabilities and Contingent Assets**

There are no material contingent assets or liabilities.

Note 25 **Cash Flow Information**

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
(a) Reconciliation of Cash Flow from Operations with Loss after Income Tax				
Loss after income tax	(3,643,033)	(2,409,171)	(52,762)	(1,949)
Cash flows excluded from loss attributable to operating activities				
Non-cash flows in profit				
Amortisation	472,603	372,756	52,758	-
Depreciation	113,018	21,345	-	-
Net loss on disposal of property, plant and equipment	596,455	-	-	-
Net gain on disposal of investments	(488,424)	-	-	-
Write-downs to recoverable amount	-	34,286	-	1,949
Share options expensed	321,008	301,434	-	-
Impairment loss	342,584	-	-	-
Share of associated companies net profit after income tax and dividends	-	32,969	-	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
(Increase)/decrease in trade and term receivables	(377,734)	(36,212)	-	-
(Increase)/decrease in prepayments	86,283	(92,071)	-	-
(Increase)/decrease in inventories	(750,024)	(1,126)	-	-
Increase/(decrease) in trade payables and accruals	423,072	(135,887)	-	-
Increase/(decrease) in provisions	46,737	(5,683)	-	-
Cash flow from operations	<u>(2,857,455)</u>	<u>(1,917,360)</u>	<u>(4)</u>	<u>-</u>
(b) Acquisition of Entities				
During the year 51% of the controlled entity IETC Environmental Protection Technology (Kunming) Ltd was acquired. Details of this transaction are:				
Purchase consideration	400,414	-	400,414	-
Cash consideration	<u>100,000</u>	<u>-</u>	<u>100,000</u>	<u>-</u>
Cash outflow	<u>100,000</u>	<u>-</u>	<u>100,000</u>	<u>-</u>
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	<u>(213,976)</u>	<u>-</u>	<u>(213,976)</u>	<u>-</u>
	<u>668,669</u>	<u>-</u>	<u>668,669</u>	<u>-</u>
Goodwill on consolidation	59,393	-	59,393	-
Minority equity interests in acquisition	<u>(327,648)</u>	<u>-</u>	<u>(327,648)</u>	<u>-</u>
	<u>400,414</u>	<u>-</u>	<u>400,414</u>	<u>-</u>
Outflow of cash to acquire subsidiary net of cash acquired:				
Cash consideration	100,000	-	100,000	-
Less: Cash balances acquired	<u>49,287</u>	<u>-</u>	<u>49,287</u>	<u>-</u>
Outflow of cash	<u>50,713</u>	<u>-</u>	<u>50,713</u>	<u>-</u>

The goodwill is attributable to the significant synergies expected to arise after the group's gain of control of IETC Environmental Protection Technology (Kunming) Ltd. The assets and liabilities arising from the acquisition are recognised at fair value which is equal to its carrying value.

(c) Non-cash Financing and Investing Activities

(i) Share & Options issue

2,071,823 shares were issued at \$0.145 as part of the consideration for the purchase of 51% of IETC Environmental Protection Technology (Kunming) Ltd.. The share issue was based on the fair value of the company which was determined by the directors prior to the purchase.

2,997,913 shares and 2,997,913 options were issued as consideration for the purchase of the 48% minority shareholding of Purezza Marketing Inc.. The shares were issued at a price of \$0.16 and the options have an exercise price of \$0.22. The issue was based on the fair value of the shareholdings which was determined by the directors prior to the purchase.

3,700,000 shares and 2,400,000 options were issued as part consideration for the purchase from the CSIRO of the Phoslock technology licence, patents and trademarks. The shares were issued at a price of \$0.20 and the options have exercise prices ranging from \$0.20 to \$0.40. The issue was based on the fair value of the intellectual property which was determined by the directors prior to the purchase.

PHOSLOCK WATER SOLUTIONS LIMITED AND CONTROLLED ENTITIES

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

Note 26 Share-based Payments

The following share-based payment arrangements existed at 30 June 2006.

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

Number of Options	Grant Date	Exercise Price	Expiry Date
1,500,000	24.11.2005	\$0.20	30.11.2008
350,000	24.11.2005	\$0.20	30.06.2008
900,000	20.03.2006	\$0.20	31.12.2008
200,000	31.05.2006	\$0.20	30.06.2008
100,000	31.05.2006	\$0.20	30.06.2009

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

Number of Options	Grant Date	Exercise Price	Expiry Date
5,000,000	24.11.2005	\$0.20	30.11.2008
4,000,000	24.11.2005	\$0.30	30.11.2009
4,000,000	24.11.2005	\$0.40	30.11.2010

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.

On the 10th of August 2005 a total of 2,997,913 options were issued to shareholders of the Company's former US licensee Purezza Marketing Inc as a component of the purchase consideration for the buyout of minority shareholdings. The options have a minimum issue price of \$0.22, a vesting date of 10 August 2008 and an expiry date of 10 August 2010.

On the 15th of December 2005 a total of 2,400,000 options were issued to the CSIRO as a component of the purchase consideration for the acquisition of the Phoslock Technology licence, patents and trademarks. Details of the options issued are as follows:

Number of Options	Grant Date	Exercise Price	Expiry Date
800,000	15.12.2005	\$0.20	30.11.2008
800,000	15.12.2005	\$0.30	30.11.2009
800,000	15.12.2005	\$0.40	30.11.2010

	Economic Entity				Parent Entity			
	2006	Weighted Average Exercise Price \$	2005	Weighted Average Exercise Price \$	2006	Weighted Average Exercise Price \$	2005	Weighted Average Exercise Price \$
	Number of Options		Number of Options		Number of Options		Number of Options	
Outstanding at the beginning of the year	9,700,000	\$0.212	3,000,000	\$0.20	9,700,000	\$0.212	3,000,000	\$0.20
Granted	23,447,913	\$0.265	6,700,000	\$0.217	23,447,913	\$0.265	6,700,000	\$0.217
Forfeited	-	-	-	-	-	-	-	-
Exercised	-	-	-	-	-	-	-	-
Expired	(3,000,000)	\$0.20	-	-	(3,000,000)	\$0.20	-	-
Outstanding at year-end	30,147,913	\$0.254	9,700,000	\$0.212	30,147,913	\$0.254	9,700,000	\$0.212
Exercisable at year-end	30,147,913	\$0.254	9,700,000	\$0.212	30,147,913	\$0.254	9,700,000	\$0.212

PHOSLOCK WATER SOLUTIONS LIMITED AND CONTROLLED ENTITIES

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

The options outstanding at 30 June 2006 had a weighted average exercise price of \$0.254 and a weighted average remaining contractual life of 3.23 years. Exercise prices range from \$0.20 to \$0.40 in respect of options outstanding at 30 June 2006.

The weighted average fair value of the options granted during the year was \$0.0162.

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

Weighted average exercise price	\$0.254
Weighted average life of the option	3.23
Underlying share price	\$0.155
Expected share price volatility	30.0%
Risk free interest rate	5.3%

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 \$321,008 (2005:Nil), and relates, in full, to equity-settled share-based payment transactions.

Note 27

Events After the Balance Sheet Date

The financial report was authorised for issue on 28 September 2006 by the board of directors.

PHOSLOCK WATER SOLUTIONS LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

Note 28 Financial Instruments

(a) Financial Risk Management

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

The group had no derivatives at 30 June 2006.

(i) Financial Risks

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

Interest rate risk

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

Foreign currency risk

The group is exposed to fluctuations in foreign currencies, principally 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 economic entity does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the economic entity

(b) Financial Instruments

(i) Interest Rate Risk

The economic entity's exposure to interest rate risk, which is the risk that a financial instruments value will fluctuate as a result of changes in market interest rates 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			
					Within Year \$		1 to 5 years \$	
	2006	2005	2006	2005	2006	2005	2006	2005
Financial Assets:								
Cash and cash equivalents	4.83	4.22	2,013,120	272,660	64,577	1,358,281	-	-
Total Financial Assets			2,013,120	272,660	64,577	1,358,281	-	-
					Non - Interest Bearing \$		Total \$	
					2006	2005	2006	2005
Financial Assets:								
Cash and cash equivalents					-	251	2,077,697	1,631,192
Receivables					1,385,149	73,880	1,385,149	73,880
Investments					-	1,099	-	1,099
Total Financial Assets					1,385,149	75,230	3,462,846	1,706,171
Financial Liabilities:								
Trade and sundry payables					866,665	162,280	866,665	162,280
Total Financial Liabilities					866,665	162,280	866,665	162,280

(ii) Net Fair Values

The net fair value of other assets and other liabilities approximate their carrying value.

PHOSLOCK WATER SOLUTIONS LIMITED AND CONTROLLED ENTITIES

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

Note 29 Change In Accounting Policy

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

AASB Amendment	AASB Standard Affected	Nature of change in accounting policy and impact	Application date of the standard	Application date for the group
2004-3	AASB 1: First-time adoption of AIFRS	No change, no impact	1 January 2006	1 July 2006
	AASB 101: Presentation of Financial Statements	No change, no impact	1 January 2006	1 July 2006
	AASB 124: Related Party Disclosures	No change, no impact	1 January 2006	1 July 2006
2005-1	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2006	1 July 2006
2005-5	AASB 1: First-time adoption of AIFRS	No change, no impact	1 January 2006	1 July 2006
	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2006	1 July 2006
2005-06	AASB 3: Business Combinations	No change, no impact	1 January 2006	1 July 2006
2005-10	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2007	1 July 2007
	AASB 101: Presentation of Financial Statements	No change, no impact	1 January 2007	1 July 2007
	AASB 114: Segment Reporting	No change, no impact	1 January 2007	1 July 2007
	AASB 117: Leases	No change, no impact	1 January 2007	1 July 2007
	AASB 133: Earnings per share	No change, no impact	1 January 2007	1 July 2007
	AASB 132: Financial Instruments: Disclosure and Presentation	No change, no impact	1 January 2007	1 July 2007
	AASB 1: First-time adoption of AIFRS	No change, no impact	1 January 2007	1 July 2007
2006-1	AASB 121: The Effects of Changes in Foreign Exchange Rates	No change, no impact	1 January 2006	1 July 2006
New Standard	AASB 7: Financial Instruments: Disclosure	No change, no impact	1 January 2007	1 July 2007
	AASB 119: Employee Benefits: December 2004	No change, no impact	1 January 2006	1 July 2006

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

AASB Amendment	AASB Standard Affected
2005-2	AASB 1023: General Insurance Contracts
2005-4	AASB 139: Financial Instruments: Recognition and Measurement
	AASB 132: Financial Instruments: Disclosure and Presentation
2005-9	AASB 4: Insurance Contracts
	AASB 1023: General Insurance Contracts
	AASB 139: Financial Instruments: Recognition and Measurement
	AASB 132: Financial Instruments: Disclosure and Presentation
2005-10	AASB 4: Insurance Contracts
	AASB 1023: General
	AASB 1038: Life Insurance

Note 30 Company Details

The registered office and principal place of business of the Company is:
Phoslock Water Solutions Limited and Controlled Entities
116 Rothschild Avenue Rosebery NSW 2018

DIRECTORS' DECLARATION

The directors of the Company declare that:

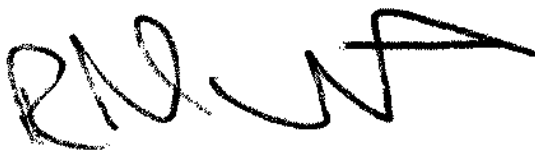
1. the financial statements and notes, as set out on pages 9 to 36 are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position as at 30 June 2006 and of the performance for the year ended on that date of the Company and economic entity;
2. the Chief Executive Officer and Chief Financial 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.



Mr Brett Crowley
Managing Director

Dated this 28th day of September 2006



Mr Robert Schuitema
Executive Chairman

Dated this 28th day of September 2006

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF PHOSLOCK WATER SOLUTIONS LIMITED**Scope****The financial report and directors' responsibility**

We have audited the financial report of Phoslock Water Solutions Limited ("the company") and its controlled entities for the financial year ended 30 June 2006. The financial report comprises the income statement, balance sheet, statement of changes in equity, cash flow statement, accompanying notes, the disclosures made as required by Australian Accounting Standard AASB 124 Related Party Disclosures in the Remuneration Report in the Directors' Report as permitted by ASIC Class Order 06/105 Calculation of Director and Executive Remuneration/Corporations Act Regulation 2M.6.04 ("remuneration disclosures") and the directors' declaration.

The remuneration report contains information not required by Australian Accounting Standard AASB 124 which is not subject to our audit.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration which forms part of the directors' report has not changed as at the date of providing our audit opinion.

Audit Opinion

1. In our opinion, the financial report of Phoslock Water Solutions Limited is in accordance with:

- a. the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF PHOSLOCK WATER SOLUTIONS LIMITED

- ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001;
and
- b. other mandatory professional reporting requirements in Australia.

2. The remuneration disclosures that are contained in the Remuneration Report in the Directors' Report comply with Australian Accounting Standard AASB 124 Related Party Disclosures and ASIC Class Order 06/105 Calculation of Director and Executive Remuneration/Corporations Act Regulation 2M.6.04.

Signed at Brisbane, 29th September 2006



William Buck
Chartered Accountants



D W Langdon
Partner