

Quarterly Report - December 2013

Friday 31st January, 2014

Key Points:

- **High profile tender secured for major sporting event water body.**
- **Significant progress with large potential projects in Asia and South America.**

ASX Code: **PHK**
Share Price: **A\$0.051**
52 Week High: **A\$0.083**
52 Week Low: **A\$0.039**
Issued Shares: **239.6m**
Market Cap: **A\$12.2m**

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During the December quarter, Phoslock Water Solutions Limited (ASX:PHK) secured a further significant contract. This project is for the application of Phoslock to a high profile sporting event water body in the United Kingdom.

Business Update

Europe

Phoslock Europe secured a major contract during the quarter to apply Phoslock to a well-known recreational lake in the United Kingdom. The contract was awarded following an open tender process and the application is scheduled to commence in the last week of February. The lake, which has experienced blue green algal problems in the past, will host a number of events at a major sporting event to be held later in the year. This project provides an excellent opportunity to further showcase the Phoslock technology in the United Kingdom, following on the earlier successful Phoslock application in London.

A similar sized application was also completed by German licensees, Bentophos GmbH, in Northern Germany during the quarter, using pre-purchased stock. Bentophos is scheduled to apply Phoslock to lakes in Germany, Austria and with Phoslock Europe in Italy in the coming spring period (February to April). Phoslock Europe is making good progress on a number of large-scale applications during the year.

North America

A number of projects were completed in the U.S. during the quarter, resulting in the placement of an order for new inventory by U.S. licensee, SePRO Corporation. SePRO Corporation and its network of distributors and applicators continue to work on a number of major projects, several of which are expected to commence within the next 12 months.

One of SePRO's largest distributors, Washington-based Aquatechnex, has been awarded a five year contract to maintain all of the urban lakes and ponds in one of Southern California's largest municipalities. The contract, which is valued at more than A\$0.6 million annually, replaces a previous maintenance contract which had also been held by Aquatechnex. Aquatechnex undertook regular applications of Phoslock to water bodies within the municipal area as part of the previous contract and similar volumes can be expected to be applied under the new contract.

Representatives of Phoslock Water Solutions, Phoslock Europe and SePRO attended the North American Lake Management Society's (NALMS) Annual Conference in San Diego late last year, one of the most important events for lake managers in both the US and Canada. Phoslock received a high level of exposure at the event, being the subject of three oral presentations and two exhibition stands.

Australia

PHK completed several projects in Western Australia during the quarter. Two of these projects had been previously dosed with Phoslock and were therefore designed as top-up applications aimed at capturing new inputs of phosphorus.

Asia and South America

The Company continues to work on major projects in Asia and South America. The potential size of both these projects is material in both volume of product and monetary value.

Marketing in South Korea and Vietnam has resulted in advanced technical discussions taking place with the expectation of applications in both countries this calendar year.

Manufacturing in China

IETC, the manufacturing Joint Venture (71% owned by PHK) based in Kunming in southern China, finished in the December 2013 quarter, in accordance with the 10 year agreement. The plant was dismantled and equipment was sold in the December 2013 quarter.

A new manufacturing facility has been established in Sichuan, China, at the premises of our key raw material supplier. Phoslock personnel have overseen the installation of the Phoslock production line which utilizes both existing equipment from the raw material supplier as well as new equipment purchased by PHK. The facility has been inspected and approved by WQA to ensure current NSF60 certification is maintained.

The change in manufacturing facilities from Kunming to Sichuan was undertaken in order to reduce manufacturing costs as well as costs relating to the transportation of raw materials to the factory and finished product from the factory to export ports.

Financial Commentary

Receipts from customers and government grants amounted to \$418,000 for the December quarter. Receipts included revenue for applications in the United Kingdom, the United States and Australia. An additional \$61,000 was received from the disposal of equipment at the IETC Joint Venture.

Expenditure for the quarter was \$508,000 (excluding interest and inventory costs), lower than the previous quarter. Net Operating Cash Flow (NOCF) for the quarter was (A\$219,000). A total of \$113,000 was spent on equipment at the new manufacturing facility in Sichuan.

As at 31 December, 2013 the Company had cash and short term assets totalling approx \$800,000 of which \$181,000 was cash, \$300,000 debtors and the remainder in inventory.

In mid January, 2014 PHK completed a factoring of a trade receivable which realised \$267,000. The receivable were booked in January, 2014 and repayable in late March, 2014 along with the factoring.

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ABOUT PHOSLOCK WATER SOLUTIONS LIMITED (PHK)

PHK has worldwide exclusivity for the sale and marketing of Phoslock, a technology developed by the Australian government scientific body CSIRO. Phoslock removes phosphorus and harmful contaminants and has been applied in over 200 water bodies and used in over 20 countries since it was commercialised in 2005.

Phoslock is headquartered in Sydney, Australia and has offices in Brisbane, Sichuan, China and European Operations (covering Europe, Central & South America) near Bremen, northern Germany. Phoslock is represented by licensees and agents in ten other countries including SePRO Corporation in the United States.

Phoslock is a certified NSF/ANSI Standard 60 product - North American Drinking Water (see websites ansi.org and scc.ca,

Phoslock Water Solutions is listed on the Australian Stock Exchange (ASX Code: PHK).

For more information about Phoslock Water Solutions visit www.phoslock.com.au or www.phoslock.eu

ABOUT PHOSLOCK – The Product

Phoslock is a unique water treatment product that binds phosphorus from a water body and creates a light covering over sediments preventing the re-release of phosphorus. By binding the phosphates to the Phoslock clay structure, it deprives algae of nutrients and significantly improves water quality both for human use and aquatic life as well as preventing and controlling Harmful Algal Blooms (HAB).

Phoslock is primarily used as an in water solution for lakes, drinking water reservoirs and other high value recreational water bodies. It is also used as a preventative product to absorb phosphorus before it is transported into water bodies by being applied in storm water basins and inflow channels, rivers and canals.

Phoslock is approved for used in North American Drinking Water Reservoirs via NSF/ANSI Standard 60 Certification. This certifies that Phoslock is safe for use in human drinking water.

Phoslock is used by the aquaculture industry (fish and shrimp/prawn) to control phosphorus levels in grow-out ponds and eliminate harmful algae blooms (HAB) and blue green algae. These have a deleterious effect on the health of aquatic life.

PHOSLOCK BOARD OF DIRECTORS

Mr Laurence Freedman AM Non-Executive Chairman

Mr Freedman was appointed a Director of PHK in October, 2010 and appointed its Chairman in March 2011.

Mr Freedman has a long history of involvement and expertise in public companies with international trading and investment activities. He began his career with the Gold Fields Group: initially an analyst, he rose to Director of Group companies. He later joined BT Australia as Manager, Investments.

In 1980 he founded Equitilink Limited, an investment management group which he grew to a global company with operations around the world and over \$3 billion under management. He held Chairman and/or Director positions in a number of public and private companies in Australia, the United States, the United Kingdom, Canada, New Zealand and Taiwan.

He was a member of the syndicate which bought the Ten Network, of which he became a director, taking it out of receivership and helping to make it the most profitable media network in Australia for some years.

In 2000 he sold the Equitilink Group and in 2004 sold out of the Ten Group.

He currently manages his private investment portfolio of international shares, property and fixed income securities. He is a mentor to a number of resource, biotech and technology companies.

He is Chairman of The Freedman Foundation, a philanthropic foundation funded by the Freedman family, which assists and supports young Australians in many areas of endeavour. The Foundation also finances a broad range of medical and scientific programs and organisations.

In 2001 he was awarded The Order of Australia for service to the community, to medical research, the arts, and to business and investment in Australia.

Mr Robert Schuitema Managing Director and Company Secretary

Mr Schuitema was appointed a Director of PHK in April 2005, and shortly thereafter assumed the role of Executive Chairman. In January 2007, he took over the role of Managing Director, and at the same time stepped down as Chairman.

Mr Schuitema brings to PHK a wide range of business and commercial skills. In addition to the daily responsibilities of running the business globally, he is responsible for investor relations, stock exchange listing and capital raisings.

Mr Schuitema is a former Managing Director of investment bank Chase Manhattan Bank and later JPMorgan Chase where he was global co-head of the Mining & Metals group and responsible for the Asia-Pacific region and also had extensive involvement in the bank's southern Africa business. He has extensive experience in a range of investment banking disciplines including commodity derivatives, equity issues, project finance for standalone projects, US\$ bond issues, trade finance, acquisition finance and mergers & acquisition advise.

He is a Director of ASX listed company KalNorth Gold Mines Limited.

Honorable Pam Allan
Non-Executive Director

The Hon. Pam Allan was appointed a Director of PHK in July 2007.

She was a Member of the NSW Parliament for 18 years to 2007. She was Minister of Environment 1995-1999 and Chair of a number of parliamentary committees including Salinity and Resource Management.

The Hon. Pam Allan was elected to the Parramatta City Council in 1983. In 1988 she was elected to the New South Wales Legislative Assembly for Wentworthville and then for Blacktown in 1991 and 1995. In 1999 and again in 2003 she was elected the Assembly's member for Wentworthville.

The Hon. Pam Allan became the Shadow Minister Planning & Environment 1988-1995, Minister of Environment 1995-1999, Chair for Select Committee on Salinity 2000-2002, the Chair, Standing Committee on Natural Resource Management from May 2003. She retired at the March 2007 election.

The Hon. Pam Allan currently serves on a number of local government bodies and authorities.