

Quarterly Report - March 2013

Monday 22nd April, 2013

Key Points:

- **Record activity for the quarter**
- **Five applications completed in UK and US**
- **Successful Share Purchase Plan raised \$1.1m**

The first quarter of 2013 has been the most active in PHK's history. Five major projects, valued between A\$80,000 and A\$450,000, were completed during the quarter in Europe and the US.

Phoslock's Managing Director, Mr Robert Schuitema commented:

"It is gratifying to see years of hard work starting to pay off. The Company completed three lake projects in the United Kingdom and our United States licensee, SePRO Corporation, has recently completed the two largest Phoslock projects undertaken to date in the United States. As a result of these and other previous projects, product awareness and industry acceptance have been significantly bolstered. The Company is well-positioned to capitalise on this increasing interest in Phoslock in all of our key markets".

Business Update

Europe and the United Kingdom

During the March 2013 quarter, three large projects and a range of smaller applications were undertaken in Europe and the United Kingdom. The projects included the application of more than 125 tonnes of Phoslock to three lakes in the United Kingdom.

ASX Code: **PHK**
Share Price: **A\$0.06**
52 Week High: **A\$0.08**
52 Week Low: **A\$0.038**
Issued Shares: **239.6m**
Market Cap: **A\$14.4m**

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As announced previously, two of these applications form part of a major project being undertaken by the UK's Environment Agency and the Natural Environment Research Council's Centre for Ecology and Hydrology to address eutrophication issues in English lakes. The project is supported by Natural England, a UK government's advisor on the natural environment. The treated lakes are both located in Cheshire and are designated Sites of Special Scientific Interest (SSSI) due to the presence of rare and important aquatic plants.

The treated lakes are expected to draw the attention of environmental authorities across Europe as the project is being undertaken by the UK Environment Agency as a showcase project for the EU's Water Framework Directive.

The third UK application, which took place during March at the Norfolk Broads, was commissioned by the Broads Authority. National Nature Reserves (NNRs), which are designated as such by Natural England, are generally considered to represent the most important SSSI sites in England and therefore the use of Phoslock on such a site represents an important milestone in the use of Phoslock in Europe.

Andrea Kelly, the senior ecologist at the Broad's Authority said, "Phoslock will give this degraded lake a second chance, enabling us to kick-start the ecosystem. We are hoping that a diversity of water plants will return and with them will come more birds and a more varied fish community."

The application at the Norfolk Broads also drew considerable interest from the English media and a short report on the project was shown on BBC's Look East program.

North America

Two major applications and a number of smaller applications were completed in the United States during the first quarter of 2013 by PHK's US licensee, SePRO Corporation.

The projects involved the application of nearly 100 tonnes of product and represented the largest Phoslock treatments undertaken in the United States to date. The first of the two took place on a public water body in Florida which had been plagued by eutrophication caused by excessive phosphorus for many years.

The second project took place on Long Island in New York State and involved the treatment of a popular recreational lake.

It is anticipated that the results from both projects will be followed with interest by authorities across the United States.

A number of smaller applications also took place during the quarter in the United States and the use of Phoslock as a management tool on smaller scale lakes and ponds continues to gain traction through SePRO's network of Preferred Applicators.

Two further major applications have also been confirmed for the upcoming quarter. These include approximately 50 tonnes of Phoslock to a lake in California and approximately 20 tonnes to a shallow urban lake in the Greater Toronto Area in Canada.

Asia

The Company continues to work on negotiations on several promising projects in Asia. The potential size of these projects is material in both volume of product and monetary value.

Share Purchase Plan (SPP)

During the quarter, PHK completed a SPP raising approx. \$1.1m. The SPP was well supported by the majority of the Top 50 shareholders along with a number of smaller shareholders.

Financial Commentary

PHK recorded Net Operating Cash Flow (NOCF) of (A\$332,000) for the March quarter. Receipts from customers amounted to \$514,000 for the period. Only a portion of cash from the United Kingdom and United States applications was received during the quarter, with the balance due in the June 2013 quarter.

Expenditure for the quarter was \$706,000 (excluding interest and inventory costs). The expenditure was higher than previous quarters due to approx. \$150,000 of one-off items. This included expenditure of \$77,000 on Research & Development related to the finalisation and registration of a new water treatment patent.

The group cash balance was \$600,000 as at 31 March, 2013. The Company holds approx. \$900,000 of inventory at current resale prices and debtors of approximately \$500,000.

The company repaid its working capital loan during the quarter and replaced this with the issue of \$1.3m of Convertible Notes due 31 December, 2013.

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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, Kunming, 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 provides a protective permeable layer to sediments preventing the re-release of phosphorus. Retention of phosphorus deprives algae of nutrients, which improves water quality 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 drinking water.

Phoslock is now 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 PWS in October, 2010 and became 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.

He is also Chairman of ASX listed company KalNorth Gold Mines Limited (formerly called Carrick Gold Limited).

Mr Robert Schuitema Managing Director and Company Secretary

Mr Schuitema was appointed a Director of PWS 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 PWS a wide range of business and commercial skills. In

addition to the daily responsibilities of running PWS businesses globally, he is responsible for investor relations, stock exchange listing and capital raisings. Mr Schuitema is also a Director of PWS' Joint Venture manufacturing company in China, IETC.

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.

Mr Schuitema is a Director of ASX listed company KalNorth Gold Mines Limited (formerly called Carrick Gold Limited) and previously a Director of Electro-Optical Systems Limited and Inca Copper & Gold Limited (formerly called Condor Metals Limited).

Honorable Pam Allan
Non-Executive Director

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

The Hon. Pam Allan is a former Member of the NSW Parliament for 18 years (retired in March 2007) where she was Minister of Environment (1995-99) 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, serving a four year term. 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 2003 she was once again 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 as the member for Wentworthville at the March 2007 election.

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