



Phoslock Water Solutions Ltd.
ABN 88 099 555 290



ASX ANNOUNCEMENT

Tuesday, 29th May, 2007

BUSINESS UPDATE

PWS continues to develop the Phoslock business globally. Phoslock is currently being marketed and sold in 22 countries. Through PWS's direct sales force and our licensees, over 30 people are dedicated to the sale of Phoslock products

Whilst the speed of sales conversion is slower than anticipated, the sales pipeline continues to grow. Phoslock is still regarded as a relatively new product by end users hence the level of pre purchase due diligence is extensive. Phoslock fills an enormous void in the remediation of natural water bodies with phosphorus and algal issues.

EUROPE

The adoption of the European Water Framework Directive (WFD) by the European Union has created major opportunities for Phoslock in Europe. The directive requires all member states to achieve "good ecological status" within surface water bodies under their management by certain deadlines and levels of phosphorus and other nutrients are highlighted as key areas of concern. PWS believe that European countries will in many cases be unable to meet their obligations under the WFD without incorporating Phoslock into their management plans.

Over the past 12 months several lake treatments have been undertaken in Europe with excellent results. The successful completion of these applications, supported by comprehensive pre and post treatment monitoring, is now attracting the interest of water authorities and leading academics across Europe. PWS and its European licensees are well positioned to capitalise on the opportunities presented by the WFD.

ASX Code: PHK
Share Price: A\$0.33
Issued Shares: 148.2m
Market Cap: A\$48.9m
Unlisted Options: 28.2m

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Germany

Two lakes in northern Germany, the Silbersee and the Otterstedtersee, were treated in October 2006. Both lakes are recreational lakes and have been subject to frequent lake closures during summer due to outbreaks of blue green algae. Since the application of Phoslock (sold under the trade name Bentophos) phosphorus levels in both lakes have been reduced to and maintained at below detection limits.

Preparations are underway to treat a third lake in the vicinity of Frankfurt within the next week. A further 3-4 applications on lakes of varying size are expected to take place within the next 2-3 months.

A major seminar to present the results of these and other applications will be held in Germany in July. The event is expected to attract water authorities from across Germany and other EU countries.

The Netherlands

PWS appointed Bentophos GMBH as its licensee for the Benelux countries in January 2007. PWS considers the market for Phoslock in The Netherlands to be potentially among the largest in Europe due to high levels of eutrophication and a lack of viable remediation options. Meetings have been held with water authorities in various regions of The Netherlands and several lakes are currently under negotiation as pilot projects, including a major lake treatment near Amsterdam which will require approximately 150 tons of Phoslock.

Poland

Following the treatment of a 22 hectare lake in northern Poland during 2006, PWS's licensee has purchased 60 tons of Phoslock which will be used on further applications planned over the next few months. The total surface area of lakes in Poland is one of the largest in Europe and the sales pipeline projected by PWS's Polish licensee for the next two years is very significant.

Italy

Negotiations relating to the treatment of a large lake in Northern Italy are well advanced. This application represents the largest project undertaken to date for Phoslock involving the use of 1,500 tons of Phoslock. The current negotiations are the result of extensive in-house testing of Phoslock by the customer over a period of more than 12 months. The application is projected to take place during 2008 and is expected to lead to similar lake treatments across Italy

France

PWS has recently expanded its European office in Brussels to include a French speaking executive. PWS is in the early stages of establishing licensee representation in France.

Hungary

A major Hungarian water treatment company, Vinyl KFT, was appointed by PWS as its Hungarian licensee in January 2007. Following an extensive review period an approval to apply Phoslock in Hungary was received in early May by the Hungarian authorities. A medium sized lake has been identified as a suitable pilot project.

United Kingdom

The business in the UK continues to grow at a steady rate with over 40 small to medium applications completed to date including three trout farms and a small drinking water reservoir. The results for the drinking water reservoir have been positive and should provide a strong reference point for marketing to this market segment. The PWS board is currently evaluating options to increase the level of business in this highly prospective market for Phoslock.

MIDDLE EAST

Israel

PWS is in advanced negotiations with a well credentialed licensee who has identified a number of large projects for Phoslock. Preparations are under way for an initial trial.

UAE

PWS has received an order for Phoslock from a Dubai based company who maintains large residential estates, many of which have large lakes requiring remediation. If the trial is successful, a large market in the Middle East will be available for Phoslock products.

ASIA

China

PWS has been asked to provide a proposal to treat a number of large water bodies in the greater Beijing area. There is a commitment to treating these water bodies prior to the 2008 Olympics.

Korea

PWS has appointed a licensee who is currently undertaking pilot projects in conjunction with a prominent university. PWS has recently shipped 20 tons to this licensee.

Taiwan

PWS's licensee in Taiwan has recently changed ownership. The new licensee has presented a detailed plan to penetrate the large water body market.

Japan

PWS sales executives have recently returned from Japan where several potential licensees were identified and work is underway to identify and implement pilot projects. It is expected that one or more licensees will be appointed within the next 2-3 months.

NEW ZEALAND

An agreement between the NZ Government and Rotorua councils and environmental authorities for the remediation of the Rotorua lakes was recently signed. It provided for up to NZ\$200m to be spent on remediation of water quality problems within the lakes. An initial budget of NZ\$12m was specified as allocated for the use of Phoslock in the remediation programme. PWS continues to work with the local environmental authorities on additional work with Phoslock prior to their full scale application.

NORTH AMERICA

Negotiations for treatment of a local lake system are continuing with our North American licensee. EPA approval is currently being sought for this application.

Phoslock has recently been successfully trialled in agricultural ingredients processing plants to reduce phosphorus levels in plant discharges.

AUSTRALIA

PWS recently completed two major domestic treatment applications, Torrens Lake in Adelaide city and a drinking water reservoir in Southern NSW.

The results to date have been excellent, achieving the objectives of significantly lowering phosphorus levels and dramatically reducing or eliminating blue green algae. At the same time levels of other non toxic algae species have been preserved. At the southern NSW application the low level of the dam coupled with extremely low alkalinity water caused some operational difficulties which have resulted in a modified application strategy being adopted for future applications.

PWS has a large pipeline of potential applications around Australia. Applications scheduled to be undertaken over the next few months include 60 tons for a WA waterbody, council water bodies, and a follow up application at a championship golf course

AQUACULTURE

The first trials with small sized operators have been completed and produced positive results. The data from these trials are being used in the next stage of trials with larger operators

In Indonesia, one of the largest prawn farms in the world has agreed to trial Phoslock in a number of their growing ponds.

In Malaysia, one of the largest prawn growing operators has also agreed to trial Phoslock in a number of ponds.

Further success with these trials will establish Phoslock as a viable commercial product in this lucrative market segment.

In Australia, a major Queensland prawn farmer and industry leader trialed Phoslock during the recently completed season. This customer now intends to use Phoslock in a number of their growing ponds in the coming season. Acceptance by this customer is expected to be the catalyst for use of Phoslock within the broader domestic aquaculture market

WATERSAVR

Since being granted the Australian license for the WaterSavr evaporation control product for municipal and council water bodies, PWS has had an enormous level of enquiries. A number of smaller sales have been made to water body managers in country Victoria and country NSW. PWS is in discussions with a number of larger water body managers to trial WaterSavr.

Despite the low level of most dams in Australia, the sales process remains slower than expected. PWS is also focussing on water bodies used by power stations as cooling lakes. Many of these lakes are at low levels and due to high water temperature experience significant evaporation.

EXECUTIVE APPOINTMENT

PWS has significantly enhanced its technical support group with the appointment of Sarah Groves as Technical Manager. Sarah holds a degree in Applied Science from the Sydney University of Technology and an Honours Degree in Science from the University of NSW where Sarah is also nearing completion of her PhD.

Sarah has a background in both freshwater and marine environments which equips her well to support the company's Phoslock activities particularly in the lucrative aquaculture market.

This appointment further strengthens PWS's technical group, under the leadership of Eddie Edmunds, the company's Chief Operating officer.

LIQUIDITY

As at 29 May, 2007 PWS has current assets of approx A\$4.5m made up; of cash (A\$2.1m), inventory – at cost (A\$1.4m); debtors and other receivables (A\$1.0m)

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