

Phoslock Water Solutions Limited and controlled entities

A.B.N. 88 099 555 290

APPENDIX 4D

HALF YEAR REPORT FOR THE PERIOD ENDED 31 DECEMBER 2016

Previous Corresponding Reporting Period: 31 December, 2015

Results for Announcement to the Market:			A\$'000
Revenue from Ordinary Activities	Up	227% to	1,899
Earnings before depreciation, tax and interest (EBITDA)	Improvement	8% to	(663)
Profit (loss) from ordinary activities after tax attributable to members (NPAT)	Improvement	31% to	(760)
Net Profit (loss) for the period attributable to members	Improvement	29% to	(724)

The company does not propose to pay any dividends for the six months ended 31 December, 2016.

NTA Backing:

Net tangible asset backing per ordinary security (cents per share):

- 31 December, 2016	0.05
- 30 June, 2016	0.02

Commentary on Results:

Detailed commentary on results contained in attached Interim Financial Statements



(Company Secretary)
Robert Schuitema

Dated: 17 February, 2017



**Phoslock Water Solutions Limited and Controlled
Entities
A.B.N. 88 099 555 290
INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2016**

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DIRECTOR'S REPORT

Your directors present their report on the Company and its controlled entities ("the Group") for the half year ended 31 December 2016.

Directors

The names of directors in office at anytime during the year or since the end of the half year are:

Mr Laurence Freedman AM
Mr Robert Schuitema
The Hon. Pam Allan

Review of Operations

- * Sales and Other Income for the 6 months totalled \$1,899,153 – up 227% Half Year on Half Year (HOH)
- * Net Loss of (\$759,626) - improvement 32% HOH
- * Forecast sales for January-June 2017 of \$2.5 million
- * Current Orders in excess of \$5 million and growing

The July to December 2016 six month period produced both record Sales and record Cash Receipts from customers for the Company.

Sales revenue for the period of \$1.7 million was a 310% increase over the corresponding six month period. The highlight for the period was the commencement of the \$5 million contract in Brazil to clean up Pampulha lake. This project is scheduled to continue until late 2017.

The major sales regions for the six months to 31 December, 2016 were Latin America, North America and Australia. The Company received an Australian Government Grant for ongoing research and development of \$302,000. Sales revenue for the second half of FY2016-17 is forecast to be significantly higher than the first half with sales to 11 projects valued at over \$2.5 million.

The loss for the 6 months of the consolidated entity after providing for non-controlling interests amounted to \$759,626 (2015: (\$1,109,754), an improvement of 32% over the corresponding six month period. Earnings before depreciation, amortisation, tax and interest (EBITDA) for the 6 months was (\$663,238) (HY2015: \$615,465).

Expenses (excluding depreciation) for the 6 months increased by 11% to \$1,573,830 (HY2015:\$1,416,567). The main changes were higher employee, marketing and administration costs offset by significantly lower finance costs. The cost of the China operation accounted for most of the increase in employee, marketing and administration costs. The investment in the Chinese business is expected to generate significant sales in 2017 and beyond. The Company continues to expense all costs associated with bringing its pipeline projects to completion in the period that they are incurred. This includes technical, external consultants and travel & marketing expenses.

Inventory purchases for the 6 months were up 85% over the corresponding six month period to \$1.7 million. This was a large outflow of cash however very positive for the business. A large portion of this inventory will be used to meet sales deliveries in the January-June 2017 period. The Company is currently funding its Inventory and Trade debtors, totalling over \$1.6 million through its own cash resources, along with a \$1 million short term working capital facility, which was drawn to \$0.4 million as at 31 December, 2016.

The Company has lodged a subsequent patent application to protect the core Phoslock technology, which is currently in review status at various patent offices covering approx 50 countries, with the intention of extending the core Phoslock technology until 2033. During the first six months of FY2016-17, the Company spent \$45,000 on its patent portfolio, the majority of these costs related to the new patent.

In January, 2016 the Group opened a China subsidiary and sales office in Shanghai. In the first year of operation, five marketing agreements were signed with large Chinese environmental groups and six paid trials and smaller applications completed. A large pipeline has been established, including a number of large projects. During the year, the Chinese Research Academy of Environmental Sciences (CRAES) accredited use of Phoslock. This will enable Phoslock to be sold for use in drinking water reservoirs, lakes and canals.

Sales from the European/UK region were lower than the previous period however Phoslock Europe has a strong pipeline of 15 projects, with several of the projects scheduled for application in the first half of 2017, valued in excess of \$300,000. To date, Phoslock Europe has completed nearly 60 lake projects since early 2007. The Company has an excellent working relationship with our European partner, Bentophos GmbH.

Solid progress was made during the year in the development of the Phoslock business in North America, in both the United States and Canada. Our US licensee, SePRO Corporation, has dedicated significant resources to develop Phoslock in the United States since taking over the license in 2011. It has developed several niche markets, one of which is growing strongly and has the potential to be a major market for Phoslock. The Company also undertook several projects in Canada in 2016 and several projects are scheduled to take place during 2017.

The Company continues to expend significant resources on large projects in China/Asia, South America, Canada and Europe. The potential size of all of these projects is material in both volume and product and monetary value. Over the last 12 months, progress has been made on most of the large projects - current 13 (defined as sales revenue from \$1 million to \$100 million). The highlight has been the commencement of the \$5 million Pampulha lake treatment being undertaken by the Viva Pampulha consortium headed by Phoslock's Brazilian licensee. Included in the large projects are five in China.

The Company and its licensees are currently working on 50 separate projects (including the 13 large projects) - 15 in Europe/UK; 20 in North & South America; 12 in China/Asia; and 3 in Australia. The sales pipeline is regularly reviewed by management and the board and only projects with a high likelihood of being undertaken are included in the sales pipeline. The Company's sales pipeline currently includes 26 projects for which the Company believes decisions are expected between now and the end of the year. In several of these projects, a decision to fund the application has already been made and the Company or its licensee is only waiting on the relevant permit to apply from the environmental regulator. The 26 projects involve a total of approx 3,150 tons and have a sales value in excess of \$9 million. Of these, 13 projects totalling over \$5 million are Orders awaiting delivery or application during 2017.

The manufacturing facility in Sichuan, China, has been operating continuously throughout the period. The Company is looking at ways to increase production and reduce manufacturing costs in order to grow its business, particularly in China.

The key to the Group's growth and development is increasing sales by converting its extensive pipeline into sales. The Company is very optimistic about 2017 and beyond, as Phoslock is used on an increasing number of projects globally. Its current Order Book in excess of \$5 million underpins a lot of the financial performance for 2017.

Phoslock Water Solutions Limited and Controlled Entities
A.B.N. 88 099 555 290
Interim Financial Report

DIRECTOR'S REPORT (continued)

Auditor's Independence Declaration

A copy of the auditor's independence declaration in accordance with Section 307C of the *Corporations Act 2001*, for the half year ended 31 December 2016 has been received and can be found on page 5.

Signed in accordance with a resolution of the Board of Directors of Phoslock Water Solutions Limited and Controlled Entities.



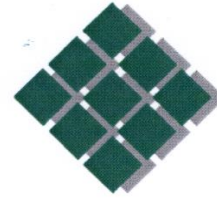
Mr Robert Schuitema
Managing Director

Dated at Sydney, 17 February 2017

W. W. Vick & Co.

Chartered Accountants

ABN 14 568 923 714



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, in relation to the review of the half year ended 31 December 2016, there have been:

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

5th Floor
379-383 Pitt Street
Sydney NSW 2000

W W Vick & Co
Chartered Accountants

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Phillip Jones - Partner

Dated: 17 February 2017

Fayworth House, Suite 503, 5th Floor, 379-383 Pitt Street, Sydney, NSW 2000
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scheme approved
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Standards Legislation

Phoslock Water Solutions Limited and Controlled Entities

A.B.N. 88 099 555 290

INTERIM FINANCIAL REPORT

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2016

	NOTE	Half Year Ended 31.12.2016 \$	Half Year Ended 31.12.2015 \$
Revenue	2	1,899,153	580,121
Cost of sales		<u>(1,046,704)</u>	<u>(240,974)</u>
Gross profit		852,449	339,147
Other income	2	-	122,464
Distribution expenses		(17,673)	(15,711)
Marketing expenses		(140,593)	(106,084)
Occupancy expenses		(50,234)	(49,690)
Administrative expenses		(479,795)	(279,104)
Employee benefit expenses		(814,291)	(501,706)
Depreciation and amortisation		(38,245)	(32,334)
Finance costs		(59,499)	(467,144)
Foreign exchange losses		(11,745)	(94,587)
Options expenses		<u>-</u>	<u>(25,005)</u>
LOSS BEFORE INCOME TAX	3	(759,626)	(1,109,754)
Income tax expense/ (revenue)		<u>-</u>	<u>-</u>
LOSS FOR THE PERIOD	3	(759,626)	(1,109,754)
OTHER COMPREHENSIVE INCOME			
Items that will be reclassified subsequently to profit or loss when conditions are met:			
Exchange differences arising on translation of foreign controlled entities		<u>35,753</u>	<u>76,523</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		<u><u>(723,873)</u></u>	<u><u>(1,033,231)</u></u>
Profit (Loss) for the period attributable to:			
- Owners of parent entity		(760,122)	(1,095,904)
- non-controlling interest		<u>496</u>	<u>(13,850)</u>
Total loss for the period		<u><u>(759,626)</u></u>	<u><u>(1,109,754)</u></u>
Total comprehensive loss for the period attributable to:			
- Owners of parent entity		(724,369)	(1,019,381)
- non-controlling interest		<u>496</u>	<u>(13,850)</u>
Total comprehensive loss for the period		<u><u>(723,873)</u></u>	<u><u>(1,033,231)</u></u>
Earnings per share			
Basic earnings per share (cents per share)		(0.21)	(0.43)
Diluted earnings per share (cents per share)		(0.21)	(0.43)

The accompanying notes form part of these financial statements

Phoslock Water Solutions Limited and Controlled Entities
A.B.N. 88 099 555 290
INTERIM FINANCIAL REPORT
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	NOTE	31.12.2016	30.06.2016
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents		353,690	1,306,865
Trade and other receivables		892,776	692,109
Inventories		729,340	498,830
Other assets		84,027	97,890
TOTAL CURRENT ASSETS		<u>2,059,833</u>	<u>2,595,694</u>
NON-CURRENT ASSETS			
Financial Assets		25,000	25,000
Plant and equipment		48,789	56,687
Intangible assets		-	-
TOTAL NON-CURRENT ASSETS		<u>73,789</u>	<u>81,687</u>
TOTAL ASSETS		<u>2,133,622</u>	<u>2,677,381</u>
CURRENT LIABILITIES			
Trade and other payables		126,547	597,758
Other Liability	2	89,830	89,830
Financial liabilities	4	1,346,218	943,549
Short term provisions		372,701	390,330
TOTAL CURRENT LIABILITIES		<u>1,935,296</u>	<u>2,021,467</u>
NON-CURRENT LIABILITIES			
Long term provisions		8,707	7,572
TOTAL NON-CURRENT LIABILITIES		<u>8,707</u>	<u>7,572</u>
TOTAL LIABILITIES		<u>1,944,003</u>	<u>2,029,039</u>
NET ASSETS/(LIABILITIES)		<u>189,619</u>	<u>648,342</u>
EQUITY			
Issued capital	6	38,730,112	38,465,112
Reserves		447,244	411,341
Accumulated losses		<u>(38,743,915)</u>	<u>(37,983,793)</u>
Owners interest		433,441	892,660
Non-controlling interest		<u>(243,822)</u>	<u>(244,318)</u>
TOTAL EQUITY		<u>189,619</u>	<u>648,342</u>

The accompanying notes form part of these financial statements

Phoslock Water Solutions Limited and Controlled Entities
A.B.N. 88 099 555 290
INTERIM FINANCIAL REPORT
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2016

Note	Issued capital \$	Option Reserve \$	Foreign currency translation reserves \$	Non- controlling interest \$	Accumulated losses \$	Total \$
Balance at 1 July 2015	32,112,271	74,408	89,970	(238,600)	(35,660,184)	(3,622,135)
Total comprehensive income/(loss) for the period						
Loss for the period	-	-	-	(13,850)	(1,095,904)	(1,109,754)
Writeback of Reserves	-	-	(142,500)	-	142,500	-
Other comprehensive income/(loss)	-	-	76,523	-	-	76,523
Total comprehensive income/(loss) for the period	-	-	(65,977)	(13,850)	(953,404)	(1,033,231)
Transactions with owners in their capacity as owners						
Shares issued during the period	397,921	-	-	-	-	397,921
Share-based payment	-	25,005	-	-	-	25,005
Total transactions with owners in their capacity as owners	397,921	25,005	-	-	-	422,926
Balance at 31 December 2015	32,510,192	99,413	23,993	(252,450)	(36,613,588)	(4,232,440)
Balance at 1 July 2016	38,465,112	277,391	133,950	(244,318)	(37,983,793)	648,342
Total comprehensive income/(loss) for the period						
Loss for the period	-	-	-	496	(760,122)	(759,626)
Other comprehensive income	-	-	35,753	-	-	35,753
Total comprehensive income/(loss) for the period	-	-	35,753	496	(760,122)	(723,873)
Transactions with owners in their capacity as owners						
Shares issued during the period	265,000	-	-	-	-	265,000
Reserves	-	-	150	-	-	150
Transaction costs	-	-	-	-	-	-
Total transactions with owners in their capacity as owners	265,000	-	150	-	-	265,150
Balance at 31 December 2016	38,730,112	277,391	169,853	(243,822)	(38,743,915)	189,619

The accompanying notes form part of these financial statements

Phoslock Water Solutions Limited and Controlled Entities
A.B.N. 88 099 555 290
INTERIM FINANCIAL REPORT
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2016

NOTE	Half Year Ended 31.12.2016 \$	Half Year Ended 31.12.2015 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and government grants	1,726,746	1,254,705
Payments to suppliers and employees	(3,247,648)	(1,306,618)
Interest received	948	997
Finance costs	(56,792)	(23,529)
NET CASH FROM / (USED IN) OPERATING ACTIVITIES	(1,576,746)	(74,445)
CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(32,983)	(866)
NET CASH FROM / (USED IN) INVESTING ACTIVITIES	(32,983)	(866)
CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES		
Proceeds from share issue	265,000	152,000
Repayment of borrowings	(280,000)	(466,425)
Proceeds from borrowings	690,000	461,424
NET CASH FROM / (USED IN) FINANCING ACTIVITIES	675,000	146,999
Net increase/(decrease) in cash and cash equivalents held	(934,729)	71,688
Cash and cash equivalents at the beginning of the period	1,306,865	132,367
Effect of exchange rates on cash holdings in foreign currencies	(18,446)	(651)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	353,690	203,404

The accompanying notes form part of these financial statements

Phoslock Water Solutions Limited and Controlled Entities
A.B.N. 88 099 555 290

INTERIM FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2016

NOTE 1 BASIS OF PREPARATION

These general purpose financial statements for the interim half-year reporting period ended 31 December 2016 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standards *AASB 134: Interim Financial Reporting*. The Group is a for-profit entity for financial reporting purposes under the Australian Accounting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Phoslock Water Solutions Ltd and its controlled entities (the Group). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2016, together with any public announcements made during the half-year.

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements.

New Accounting Standards and Interpretation

The Group has considered the implications of new or Amended Accounting Standards but determined that the applications to the financial statements is either not relevant or material.

NOTE 1 (a) Material Uncertainty Regarding Going Concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

The Group has recorded an operating loss after income tax of \$759,626 (31 December 2015: \$1,109,754) for the half year then ended. The current liabilities includes convertible notes and loans of \$1,065,000 payable to Link Traders (Aust) Pty Ltd, the Group's major shareholder and a company controlled by the Group's Non-executive Chairman. The convertible notes have a maturity date of 30 June 2017 and the loan, 30 November, 2017. The Group has Accumulated Loss of \$38,743,915 (June 2016: \$37,983,793) and a net assets of \$189,619 (30 June 2016: \$648,342). The Company had net cash outflows from operating activities of \$1,576,746 (31 December, 2015; \$74,445). At the reporting date the group had cash reserves of \$353,690 (30 June 2016: \$1,306,865).

The continuing viability of the Group and its ability to continue on a going concern basis and meet its debts and commitments as they fall due is dependent upon the Group converting significant pipeline projects (worth \$1 million or more) into actual sales annually and if required, securing additional funding in the form of equity or convertible equity. In the event that the Group is unable to convert significant pipeline projects into sales receipts and/or is unable to raise additional funds if required, there exists a material uncertainty that may cast doubt on the Group's ability to continue as a going concern and therefore realise its assets or extinguish its liabilities in the ordinary course of business.

The Directors believe it is appropriate to prepare these accounts on a going concern basis because:

- The company has prepared a cash flow forecasts for the 13 month period ending 31 March 2018 which the directors consider that the cash flow forecasts indicate that the Group will have sufficient cash flows to meet all commitments for the 13 month period from the date of signing this half year financial report.
- The Group has a number of project pipelines active around the world, particularly China and South America. The potential size of both these markets is material in product volume and monetary value. The company and its respective local licensees are currently working on 50 separate projects (including the 13 large projects; projects with a value > A\$1 million) - 15 in Europe/UK; 20 in North & South America; 12 in China & Asia; and 3 in Australia. The sales pipeline is regularly reviewed by management and the board and only projects with a high likelihood of being undertaken are included in the sales pipeline. The Company's sales pipeline currently includes 21 projects for which the Company believes decisions are expected between now and the end of the year. In several of these projects, a decision to fund the application has already been made and the Company or its licensee is only waiting on the relevant permit to apply from the environmental regulator. The 26 projects involve a total of approx 3,100 tons and have a sales value of in excess of \$9 million. Of these, 11 projects totalling over \$5 million are Orders awaiting delivery or application during 2017.
- The company has 23.1 million Options maturing between September 2017 and March 2018. The Options have exercise prices between 6 cents and 9 cents per share and could raise a total of \$1.8m, if the Options are exercised. The Company may raise additional funding from the capital or equity market during 2017, primarily to fund its increased inventory and debtors working capital requirements, and production cost reduction initiatives. No decision regarding the amount, timing, structure of offering and the intended market (existing equity holders, new equity holders (Australian or international) has been made.

Based on the Group cash flow forecasts and other factors referred to above, the directors are satisfied that the going concern basis of preparation is appropriate.

Financial Instruments

The Group's financial instruments consist of cash and cash equivalents, trade and other receivables, refundable security deposits, trade and other payables, related party short-term loan and related party short-term convertible note payable and a unsecured subordinated non-interest bearing loan from Betophos GmbH (which holds a non-controlling interest in Phoslock Europe GmbH, Zug). These financial instruments are measured at amortised cost, less any impairment. The carrying amount of the financial assets and liabilities approximate their fair value.

NOTE 2 REVENUE	31.12.2016	31.12.2015
	\$	\$
Sales Revenue		
- sale of goods	1,697,857	414,765
- provision of services	4,654	301
	<u>1,702,511</u>	<u>415,066</u>
Other Revenue		
- interest received	1,356	993
- export development/r&d grants	195,286	164,062
	<u>196,642</u>	<u>165,055</u>
Total Revenue	<u>1,899,153</u>	<u>580,121</u>
Amounts received in advance from customers; goods yet to be delivered- disclosed as other liabilities	89,830	289,830
Other Income		
- Other income	-	488
- Fair value gain on derivative liability (relates to ASOF Convertible Security)	-	121,976
Total other income	<u>-</u>	<u>122,464</u>
Total Revenue & Other Income	<u>1,899,153</u>	<u>702,585</u>

Phoslock Water Solutions Limited and Controlled Entities
A.B.N. 88 099 555 290

INTERIM FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2016

NOTE 3 LOSS FOR THE PERIOD	31.12.2016	31.12.2015
	\$	\$
Loss for the period includes the following specific items:		
Employee benefit expenses	(814,291)	(501,706)
Employee benefit expenses include salaries to employees, director fees, superannuation, annual and long service leave costs for the period, cost of any options or shares issued to employees, fringe benefit taxes and workers compensation.		
Finance costs		
- Convertible Notes issued to third party- amortised interest expense	-	(223,671)
- Convertible Notes issued to related parties	(49,253)	(155,014)
- loans provided by related parties	(7,729)	(83,305)
- other interest & fees	(2,517)	(5,154)
Total Finance Cost	<u>(59,499)</u>	<u>(467,144)</u>

Finance costs include all interest, derivative, option and upfront expenses for loans, convertible notes and factoring of trade receivables, and bank charges. 2015 finance costs included interest on \$2,476,403 Convertible Notes and \$898,556 of short term loans.

NOTE 4 FINANCIAL LIABILITIES	31.12.2016	30.06.2016
	\$	\$
Short term loans - related party	410,000	-
Convertible notes due 30 June 2017 - related parties	650,000	650,000
Subordinated shareholder loan repayable by Phoslock Europe - related party	286,218	293,549
	<u>1,346,218</u>	<u>943,549</u>

NOTE 5 SEGMENT REPORTING

Segment Information

Identification of reportable segments

The group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The group is managed primarily on the basis of geographical areas – Australia/NZ, Europe/UK, North America, China/Asia and Brazil. The Group's operations inherently have similar profiles and performance assessment criteria.

Types of products and services by segment

The sale of Phoslock granules and application services and lake restoration consulting services is the main business of the Group. These products and services are provided on a geographical basis with offices and representation in each of the company's four key geographical areas - Australia/NZ, Europe/UK, Americas and Asia.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Inter-segment transactions

An internally determined transfer price is set for all inter-entity sales. This price is based on what would be realised in the event the sale was made to an external party at arm's-length. All such transactions are eliminated on consolidation for the Groups financial statements.

Corporate charges are allocated to reporting segments based on the segments' overall proportion of revenue generation within the Group. The Board of Directors believes this is representative of likely consumption of head office expenditure that should be used in assessing segment performance and cost recoveries. Inter-segment loans payable and receivable are initially recognised at the consideration received net of transaction costs and then revalued to the exchange rate used at the end of the current accounting period.

Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Unless indicated otherwise in the segment assets note, investments in financial assets, deferred tax assets and intangible assets have not been allocated to operating segments.

Segment liabilities

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

Unallocated items

The following items of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- net gains on disposal of available-for-sale investments;
- income tax expense;
- deferred tax assets and liabilities;
- intangible assets;
- corporate and finance costs

Phoslock Water Solutions Limited and Controlled Entities
A.B.N. 88 099 555 290

INTERIM FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2016

(i) Segment performance

	Australia/NZ	Europe/UK	N&S America	China/Asia	Total	Eliminations	Total
Six months ended 31 December 2016							
Revenue							
External sales	27,001	35,877	1,520,110	119,523	1,702,511	-	1,702,511
Inter-segment sales		15,257		-	15,257	(15,257)	-
Other revenue	195,286	-			195,286	-	195,286
Total segment revenue	222,287	51,134	1,520,110	119,523	1,913,054	(15,257)	1,897,797
<i>Reconciliation of segment revenue to group revenue</i>							
Unallocated interest income							1,356
Total group revenue							<u>1,899,153</u>
Segment loss before tax	(28,126)	(10,405)	162,309	(305,863)	(182,085)	-	(182,085)
<i>Reconciliation of segment result to group net profit/(loss) before tax</i>							
Amounts not included in segment result but reviewed by the Board							
- Depreciation and amortisation	(38,245)				(38,245)	-	(38,245)
Unallocated items:							
- Corporate charges							(479,797)
- Finance costs							(59,499)
Loss before income tax from continuing operations							<u>(759,626)</u>
Six months ended 31 December 2015							
Revenue							
External sales	166,424	12,937	235,705		415,066	-	415,066
Inter-segment sales		13,012			13,012	(13,012)	-
Other revenue	286,526	-			286,526	-	286,526
Total segment revenue	452,950	25,949	235,705	-	714,604	(13,012)	701,592
<i>Reconciliation of segment revenue to group revenue</i>							
Unallocated interest income							993
Total group revenue							<u>702,585</u>
Segment loss before tax	(205,493)	(44,594)	25,000	-	(225,087)	-	(225,087)
<i>Reconciliation of segment result to group net profit/(loss) before tax</i>							
Amounts not included in segment result but reviewed by the Board							
- Depreciation and amortisation	(32,334)				(32,334)	-	(32,334)
Unallocated items:							
- Corporate charges							(385,188)
- Finance costs							(467,144)
Loss before income tax from continuing operations							<u>(1,109,754)</u>

	Australia/NZ	Europe/UK	N&S America	China/Asia	Total	Eliminations	Total
(ii) Segment assets							
31 December 2016							
Segment assets	3,043,448	194,050	-	288,852	3,526,351	(1,392,726)	2,133,625
Unallocated assets - intangibles						-	-
Total group assets							<u>2,133,625</u>
30 June 2016							
Segment assets	3,409,056	202,408	-	130,022	3,741,486	(1,064,105)	2,677,381
Unallocated assets - intangibles						-	-
Total group assets							<u>2,677,381</u>
(iii) Segment liabilities							
31 December 2016							
Segment liabilities	1,640,779	289,702	-	13,523	1,944,004	-	1,944,004
Unallocated liabilities						-	-
Total group liabilities							<u>1,944,004</u>
30 June 2016							
Segment liabilities	1,725,220	342,011	-	(6,845)	2,060,386	(31,347)	2,029,039
Unallocated liabilities						-	-
Total group liabilities							<u>2,029,039</u>

(iv) Major customers

The Group has a number of customers to which it provides both products and services. The Group's largest external customer accounts for 77% of external revenue (2015:34%)

Phoslock Water Solutions Limited and Controlled Entities
A.B.N. 88 099 555 290

INTERIM FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2016

NOTE 6 SHARE CAPITAL

	31.12.2016		30.06.2016	
	No.	\$	No.	\$
At the beginning of the period	362,953,968	38,465,112	250,851,616	32,112,271
Contributions and distributions during the period				
- Exercise of Unlisted Options	5,000,000	265,000		
- Shares issued for Lind Convertible Security repayments			6,984,126	312,916
- Placement to Consultant			1,000,000	26,000
- Placement (Dec 2015)			10,000,000	400,000
- Placement (May 2016)	-		20,000,000	1,400,000
- Share Purchase Plan (June 2016)			22,318,506	1,562,295
- Conversion of Convertible Notes			32,880,435	1,400,000
- Placement (June 2016)			18,919,285	1,324,350
Transaction cost arising from Placements				(72,720)
Balance at the end of the period	<u>367,953,968</u>	<u>38,730,112</u>	<u>362,953,968</u>	<u>38,465,112</u>

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

At shareholder 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.

OPTIONS OUTSTANDING

	31.12.2016		30.06.2016	
	No.	Weighted Average Exercise Price	No.	Weighted Average Exercise Price
Options balance at the beginning of the period	28,100,000	0.075	14,500,000	\$0.062
Options issued during the period	-	0.000	18,600,000	\$0.082
Options Exercised during the period	(5,000,000)	0.053	(5,000,000)	\$0.100
Options where vesting conditions not met	-	0.000	-	\$0.000
Options balance at the end of the period	<u>23,100,000</u>	<u>0.080</u>	<u>28,100,000</u>	<u>\$0.075</u>

All options are unlisted.

During the period, 5 million options were exercised raising \$265,000.

NOTE 7 COMMITMENTS AND CONTINGENT LIABILITIES

The Group has three non-cancellable operating lease commitments with future rental payments of \$789,717 (30 June 2016 \$43,401). There has been no significant contingent liabilities since the last annual reporting date to 31 December, 2016.

NOTE 8 EVENTS SUBSEQUENT TO THE REPORTING DATE

There are no material events subsequent to 31 December, 2016.

NOTE 9 DIVIDENDS PAID OR PAYABLE

No dividends have been paid or declared during the period (2015: \$nil).

NOTE 10 RELATED PARTY TRANSACTIONS

	31.12.2016	31.12.2015
	\$	\$
	6 months	6 months
Transaction with related parties:		
(a) Relatives of Specified Executives		
Services provided on a normal commercial basis by parties related to specified executives		
Margaret Schuitema – part time employment (1)	34,615	22,000
Yolanda Winks – part time employment (2)	17,308	15,000
Ben Schuitema – part time employment (1)	11,385	14,460
Martin Schuitema – part time employment (1)	16,935	9,900
(b) Transactions with related parties		
Link Traders (Aust) Pty Ltd – rental costs for Sydney Office (3)	49,390	45,688
Link Traders (Aust) Pty Ltd – interest on loans (3) (7)	55,068	219,215
Sail Ahead Pty Ltd – interest on loans (4) (6)	1,825	18,904
Wentworth Place Group Ltd - investor relations (8)	24,000	25,000
Contribution to self-managed superannuation funds managed by related parties (3) (4)	33,856	36,188
(c) Transactions with other related parties		
Bentophos GmbH - purchase of goods & services	2,947	-
Bentophos GmbH - subordinated loan payments to Phoslock Europe GmbH	-	-
Bentophos GmbH is a major business partner and currently holds 40% interest in subsidiary Phoslock Europe GmbH.		
(d) Balances with related parties		
Robert Schuitema - loan from Phoslock Pty Ltd to purchase PHK shares	-	-
Link Traders (Aust) Pty Ltd – Convertible Notes (3) (5)	650,000	1,800,000
Sail Ahead Pty Ltd – Convertible notes (4) (5)	-	250,000
Link Traders (Aust) Pty Ltd – loan to Phoslock Pty Ltd (3)	400,000	898,556
Sail Ahead Pty Ltd – loan to Phoslock Pty Ltd (4)	10,000	-
Bentophos GmbH - subordinated loan to Phoslock Europe GmbH	286,218	294,429
Link Traders (Aust) Pty Ltd – Interest on loans and Con Notes accrued (3)	-	272,942
Sail Ahead Pty Ltd – Interest on loans and Con Notes accrued (4)	-	21,986
Nigel Trail- salary deferred and not paid	-	68,997

Phoslock Water Solutions Limited and Controlled Entities

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INTERIM FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2016

- (1) related party of Robert Schuitema
- (2) related party of Andrew Winks
- (3) Laurence Freedman is a director of this company
- (4) Robert Schuitema is a director of this company
- (5) Convertible Notes issued by Phoslock Water Solutions Ltd convertible/ repayable by 30 June, 2017; interest rate – 15%
- (6) interest paid on loans, debt factoring to Phoslock Pty Ltd (interest rate 15%) and Convertible Notes to Phoslock Water Solutions Ltd (interest rate 15%)
- (7) interest paid on loans for Convertible Notes to Phoslock Water Solutions Ltd (interest rate 15%)
- (8) related party by of Laurence Freedman

Phoslock Water Solutions Limited and Controlled Entities
A.B.N. 88 099 555 290
DIRECTOR'S DECLARATION

The Directors of Phoslock Water Solutions Limited and Controlled Entities declare that:

- 1 The financial statements and notes set out on pages 6 to 14 are in accordance with the *Corporations Act 2001*; including:
 - (a) complying with Australian Accounting Standard *AASB 134: Interim Financial Reporting and the Corporations Regulations 2001*; and
 - (b) giving a true and fair view of the Group's financial position as at 31 December 2016 and its performance for the half-year period
- 2 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 become due and payable.

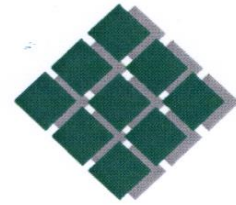
This declaration is made in accordance with a resolution of the Board of Directors of Phoslock Water Solutions Limited and Controlled Entities.

On behalf of the directors



Robert Schuitema
Director

Dated this 17th day of February 2017



**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF PHOSLOCK WATER SOLUTIONS LIMITED AND CONTROLLED ENTITIES**

Report on the Financial Report

We have reviewed the accompanying half year financial report of Phoslock Water Solutions Limited (the "Group"), which comprises the consolidated condensed statement of financial position as at 31 December 2016, the consolidated condensed statement of profit or loss and other comprehensive income, consolidated condensed statement of changes in equity and consolidated condensed statement of cash flows for the half year ended on that date, notes 1 to 10 comprising a summary of significant accounting policies and other explanatory notes and the directors' declaration for Phoslock Water Solutions Limited, comprising of the company and the entities it controlled at the half year's end or from time to time during the half financial year.

Directors' Responsibility for the Half Year Financial Report

The directors of the Group are responsible for the preparation of the half year financial report that gives a true and fair view in accordance with *Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on *Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard *AASB 134 Interim financial Reporting and the Corporations Regulations 2001*. As auditor of Phoslock Water Solutions Ltd, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year financial report of Phoslock Water Solutions Limited and Controlled Entities is not in accordance with:

the *Corporations Act 2001* , including:

- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half year ended on that date; and
- (ii) complying with Australian Accounting Standard *AASB 134 Interim Financial Reporting and the Corporations Regulations 2001*.

Emphasis of Matter

Material uncertainty regarding continuation as a going concern

Without modifying our conclusion, we draw attention to Note 1(a) in the financial report which indicates that the consolidated entity incurred a net loss of \$759,626 during the half year ended 31 December 2016, has accumulated losses totalling \$38,743,915 and net cash used in operating activities of \$1,576,746. These conditions, along with other matters disclosed in Note 1(a), indicates the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, whether it will be able to realise its assets and discharge its liabilities in the normal course of business.

5th Floor
379-383 Pitt Street
Sydney NSW 2000

Dated: 17 February 2017

W W Vick & Co
Chartered Accountants



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Phillip Jones - Partner