

Business Update

Tuesday 22nd April, 2014

Key Points:

- **Major UK application completed on lake used for high profile water events.**
- **First contracts secured in Alberta, Canada, projects scheduled for next week.**
- **First commercial production from new manufacturing facility**

ASX Code: **PHK**
Share Price: **A\$0.028**
52 Week High: **A\$0.083**
52 Week Low: **A\$0.028**
Issued Shares: **239.6m**
Market Cap: **A\$6.7m**

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During the March quarter, Phoslock Water Solutions Limited (ASX:PHK) completed the application of Phoslock to a high profile sporting event water body in the United Kingdom and secured contacts for two projects in the Canadian Province of Alberta. Other applications were completed in Germany by Bentophos and the United States by SePRO. Smaller applications were undertaken in Italy and Austria. PHK undertook a number of smaller sized applications in Australia to waterbodies suffering blue green algae issues.

First production from PHK's new manufacturing facility in Sichuan, China was dispatched during the quarter to customers in North America. PHK formed a second marketing joint venture in China during the quarter.

Business Update

Europe

A major application of Phoslock was completed during February on a well-known recreational lake in the United Kingdom. As reported in our last update, the contract was awarded following an open tender process. The lake, which has experienced blue green algal problems in the past, will host a number of events at an international event to be held later in the year. This project follows the highly successful application to the Serpentine and Round Pond in 2012 for another global sporting event.

Smaller applications were completed by German licensees, Bentophos GmbH, in Northern and Southern Germany during the quarter. Sales were also made to

customers in Italy and Austria. Phoslock Europe continues to make solid progress on a number of large-scale applications.

North America

Sales in North America totalled approximately \$300,000 during the quarter, with the cash due in May. U.S. licensee, SePRO Corporation placed orders for new inventory, while in Canada, PHK has been awarded two new contracts for projects to be undertaken in Alberta during the current quarter.

The Canadian projects will be the first applications of Phoslock in Alberta. Over the past 12 months, PHK has made the Canadian Prairie Projects (particularly Alberta and Manitoba) a focus of our marketing efforts and Phoslock is now under consideration in several major projects in these Provinces. Eutrophication is a major issue in both Alberta and Manitoba, with Lake Winnipeg named as the world's "most threatened lake" in 2013. Further orders are expected for projects in Ontario.

Australia

PHK completed a number of smaller applications during the quarter and into April treating waterbodies with blue green algae problems. Whilst the initial treatments are only addressing customers' short term problems, PHK is looking to move these customers onto preventative application programs.

Asia and South America

The Company continues to work on major projects in Asia and South America. The potential size of 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

A new manufacturing facility has been established in Sichuan, China, at the premises of our key raw material supplier. The new facility is now operational, and has been inspected and approved by WQA to ensure current NSF60 certification is maintained. First commercial production was dispatched during the quarter to customers in North America.

Moving manufacturing facilities from Kunming to Sichuan has reduced both manufacturing and transportation (raw materials to the factory and finished product from the factory to export ports) costs.

PHK formed a new marketing joint venture with our manufacturing partner, to sell and distribute Phoslock in parts of China. A number of major marketing initiatives were undertaken during the quarter. A new Chinese website was launched during the quarter – www.phoslock.com.cn

Financial Commentary

Cash receipts for the quarter were \$302,000 made up of sale receipts from United Kingdom, Australia, Canada and some smaller European sales. Trade debtors (sales recorded by awaiting cash receipt) were approx. \$400,000. Cash expenses for the quarter were \$370,000 before interest and inventory purchases. This is well below the quarterly average of \$500,000 per quarter.

As at 31 March, 2014 the Company had cash of \$304,000, trade debtors of approx. \$400,000 and inventory of approx.. \$300,000 (at realisation value).

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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 other harmful contaminants without affecting plant or animal life, 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 eight 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 or www.phoslock.com.cn (Chinese language).

ABOUT PHOSLOCK – The Product

Phoslock is a unique water treatment product that permanently 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 from storm water basins, inflow channels, rivers and canals.

Phoslock is approved for use 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 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, bond issues, trade finance, acquisition finance and mergers & acquisition.

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 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.

She currently serves on a number of local government bodies and authorities.