



9 May, 2013

Stephanie Yong  
Senior Advisor  
ASX Compliance Pty Limited  
20 Bridge Street NSW 2000

Dear Stephanie,

We respond to your letter dated 6 May, 2013 and questions relating to Phoslock Water Solution's (PHK) March 2013 Appendix 4C.

1. The net operating cashflow for March 2013 quarter was (\$332,000). On page 3 of PHK's Quarterly Report dated 22 April, 2013, that was issued at the same time as Appendix 4C, PHK noted that "*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 balance related to a one off employee cost.

Excluding the one-off payments in the March 2013 quarter, the net operating cashflow for March 2013 quarter would have been approx. (\$182,000). This compares to (\$241,000) for the December 2012 quarter and (\$180,000) for the September 2012 quarter.

PHK had cash of \$600,000 as at 31 March, 2013. Since 31 March, 2013 PHK has received the balance of proceeds from UK applications undertaken in March 2013 and is expecting shortly, proceeds from US and Canadian applications recently undertaken. This totals approx \$450,000. Further sales are currently in negotiation however the timing of revenues from these sales cannot be accurately determined (whether it is received in June, July or August). Furthermore, Government Grant money in the vicinity of \$200,000 is expected in the next couple of months, the timing of which (whether it is received in June, July or August) is not in PHK's control.

PHK's cash expenditure for the June 2013 quarter is expected, at this point in time, to be in line with previous normalised quarters of around \$600,000.

2. Based on the information supplied in question 1, the range of outcomes for net operating cash flow for the June 2013 quarter to be plus \$100,000 to negative \$150,000. PHK believes it has sufficient funds in order to continue its operations.
3. Business activity for 2013 has been strong with 6 meaningful projects announced to the ASX over recent months. PHK has a pipeline of future applications (small, medium, large and very large) over the next 12 months in North America, UK, Europe, Asia and Australia. PHK believes it will secure a meaningful number of contracts over the next 12 months.

4. PHK confirms that it is in compliance with listing rule 3.1 (continuous disclosure).
5. PHK confirms that it is in compliance with listing rule 12.2 (financial condition of entity).

Yours sincerely,



**Robert Schuitema**  
Managing Director  
Phoslock Water Solutions Limited

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6 May 2013

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Robert Schuitema  
Managing Director  
Phoslock Water Solutions Limited  
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110 Pacific Highway  
St Leonards NSW 2065

By Email

Dear Robert

**PHOSLOCK WATER SOLUTIONS LIMITED (the "Company")**

I refer to the Company's Quarterly Report in the form of Appendix 4C for the period ended 31 March 2013, released to ASX Limited ("ASX") on 22 April 2013 (the "Appendix 4C").

ASX notes that the Company has reported the following.

1. Receipts from customers of \$514,000.
2. Net negative operating cash flows for the quarter of \$332,000.
3. Cash at end of quarter of \$600,000.

In light of the information contained in the Appendix 4C please respond to each of the following questions.

1. It is possible to conclude on the basis of the information provided that if the Company were to continue to expend cash at the rate for the quarter indicated by the Appendix 4C, taking into account future administration costs, the Company may not have sufficient cash to fund its activities. Is this the case, or are there other factors that should be taken into account in assessing the Company's position?
2. Does the Company expect that in the future it will have negative operating cash flows similar to that reported in the Appendix 4C for the quarter and, if so, what steps has it taken to ensure that it has sufficient funds in order to continue its operations at that rate?
3. What steps has the Company taken, or what steps does it propose to take, to enable it to continue to meet its business objectives?
4. Can the Company confirm that it is in compliance with the listing rules, and in particular, listing rule 3.1?



5. Please comment on the Company's compliance with listing rule 12.2, with reference to the matters discussed in the note to the rule.

### **Listing rule 3.1**

Listing rule 3.1 requires an entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. The exceptions to this requirement are set out in the rule.

In responding to this letter you should consult listing rule 3.1 and the guidance note titled "Continuous disclosure: listing rule 3.1".

If the information requested by this letter is information required to be given to ASX under listing rule 3.1 your obligation is to disclose the information immediately.

Your responsibility under listing rule 3.1 is not confined to, or necessarily satisfied by, answering the questions set out in this letter.

This letter and your response may be released to the market. If you have any concerns about your response being released, please contact me immediately. Your response should be sent to me by e-mail or by facsimile on facsimile number **(02) 9241 7620**. It should not be sent to the Company Announcements Office.

Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible and, in any event, **not later than close of business, A.E.S.T. on Thursday, 9<sup>th</sup> May 2013**.

If you are unable to respond by the time requested you should consider a request for a trading halt in the Company's securities.

If you have any queries, please do not hesitate to contact.

Yours sincerely,

*[Sent electronically without signature]*

Stephanie Yong  
**Senior Adviser, Listings Compliance (Sydney)**