



Phoslock Water Solutions Ltd.
ABN 88 099 555 290



ASX ANNOUNCEMENT

28 April 2006

Appendix 4C - March 2006 Quarterly Cash Flow Commentary

Sales collections for the March 2006 quarter were A\$108k. Sales for the June 2006 quarter are currently forecast at over A\$600k with a number of potential large sales that could significantly add to this figure.

At the end of April, PWS will have inventories of over 900 tons. A meaningful portion of this is earmarked to meet sales in the June 2006 quarter.

At 31 March 2006 PWS had cash of A\$909k along with inventories, debtors and loans to the Chinese JV in excess of A\$2m. In addition, as announced below, PWS is in the final stage of negotiations with a third party to sell the majority of its bentonite mining leases. This transaction, expected to be completed in late May, will generate a significant amount of cash for the Company, which can be used to grow the Phoslock business.

Net operating cash burn for the March 2006 quarter excluding stock build was A\$448k. One off costs of A\$154K were incurred during the quarter relating to preparing the bentonite mining leases for sale, capital raising costs and capex for the Chinese JV.

The significant acceleration of sales in the June 2006 quarter will bring the Company closer to its objective of being cash flow breakeven (excluding one off costs) this calendar year.

Sales & Marketing Update

The Company has made significant progress during the last quarter building out its sales and marketing coverage for both retail products (sold in 1.25kg, 2.5kg and 5kg containers and 25kg bags) and larger water body products (25kg bags sold in bulk and 1 ton bulka bags).

ASX Code: PHK
Share Price: A\$0.155
Issued Shares: 130.3m
Market Cap: A\$20.2m
Unlisted Options: 28.9m

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Retail Products

(i) Australia

A retail production facility has been established in Sydney to package, label and distribute retail products to our distributors and end retailers. By the end of April, Phoslock's products will be stocked and sold in over 20 retail outlets, mainly irrigation and rural supply stores. The Company has 5 full time employees dedicated to growing and servicing the retail sector. It is forecast that Phoslock products will be sold through at least 100 retail outlets by the end of June 2006, and 200 retail outlets by calendar year end.

Retail outlets are also proving to be a great source of referral business for medium sized water bodies projects.

(ii) Europe

PWS is currently finalizing an agreement with a major European garden and water products distributor to sell Phoslock products in Europe. Our European distributor will be responsible for all packaging, labeling and distribution in this vast market, which covers over 350m people and 30 different countries and languages.

The distributor will launch Phoslock products on the 15th May 2006 at the Interzoo Fair (a major garden and water products industry fair) in Nuremburg.

(iii) Other Countries

PWS is continuing to work closely with our licensees in New Zealand and South Africa to establish the retail business in those markets.

Large Water Bodies

PWS is in discussions and negotiations with over 30 different local authority and private water managers in a number of countries for the treatment of large water bodies. These projects range from 10 tons to plus 2,000 tons.

The sales cycle for these water bodies can take some time. There are two key hurdles to clear for each of these projects – product suitability and availability of funding for the treatment. It is clear that many authorities see Phoslock as a practical solution to the eutrophication of water bodies. Successful applications have taken place in lakes in Australia, New Zealand and South Africa. Applications in the Netherlands, Germany, Poland and the United States will take place over the next month. Repeat applications are scheduled for lakes in New Zealand and South Africa during May and June.

A number of large European based projects will rely upon funding approvals from councils, local and central governments. Funding has already been approved for large jobs in Poland (May), UK (early in 2007) and NZ (approved for 2007 budget year).

Fish Farming & Prawn Industries

The presence of excessive algae in fish and prawn farms has a direct impact on quality and revenue generating capacity of the end product. The Company receives a significant amount of enquiries to assist these farms. We have sold product to four prawn farms around the world. They continue to trial Phoslock as a solution to their algae problem.

Our first treatment in the UK is likely to be a large trout fishery near Swindon. Anglers pay a daily fee to fish in these waters. The algae problem is of such magnitude that the business is closed during periods of the summer months. There are over 1,000 trout fisheries in the UK facing the same algae issues.

Existing solutions for the algae problem within trout fisheries include barley straw, barley extract, addition of bacteria and algaecides. None of these alternatives have met with any long-term success as they provide only temporary relief and most lead to other complications.

European Licensees/Distributors

PWS has made significant progress in establishing well credentialed partners as licensee or distributor in various European countries.

In the Netherlands, PWS has appointed a leading environmental company to sell and distribute Phoslock. Their first application was a castle moat completed late last year. With the arrival of spring, they have a number of golf course treatments to undertake. They believe that there is a significant market in the Benelux countries (the area of their license) for application to golf courses, castle waterways and parks.

In Germany, the first treatment will take place within three weeks at a 4 hectare lake near Bremen, which is traditionally closed in summer because of algae problems. Successful treatment is expected to result in significant local and national press. This should lead to many similar applications throughout Germany, Austria and Switzerland.

Production Update

The manufacturing facility at Kunming, China continues to operate at a rate which meets current and medium term anticipated sales and build of necessary inventories. As at the end of April 2006, PWS had inventories in Kunming and its warehouse facility at Huangpu, China of approx 900 MT.

IETC (the Chinese J/V which is 71% owned by PWS) continues to upgrade various items of machinery to improve the facility's production capacity and plant reliability. The facility now has three diesel generators able to power the entire plant. These are necessary in periods of power rationing.

PWS continues to assess additional production capacity. The Company is considering proposals for both standalone company owned facilities and toll processing.

Sale of Bentonite Mining Leases

PWS is in the final stage of negotiations with a third party to sell the majority of its bentonite mining leases at Gurulmundi near Miles, central Queensland. This transaction will free up a significant amount of cash for the Company, which can be used to further grow the Phoslock business. PWS will retain the right to buy bentonite ore from the new owner on an agreed cost basis, which will represent a significant discount to other Australian bentonite sourcing options. PWS will also retain one of the exploration leases in the area. The transaction is expected to be finalised in late May.

Sale of Shares in NASDAQ Company

As part of the licensing transactions with the Purezza Group (the US company which purchased the sub-license to market Phoslock in North America – this agreement was terminated in 2005), PWS received shares in an unlisted US company. This company was listed on the NASDAQ in late 2005 and PWS has recently had the sales restriction lifted on these shares and is in the process of divesting the securities. The current market value of these shares is approx A\$350k (current book value is A\$1k).

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