



Phoslock Water Solutions Ltd.
ABN 88 099 555 290



ASX ANNOUNCEMENT

Tuesday 31st July, 2007.

BUSINESS UPDATE

PWS recorded cash receipts from sales of approx A\$485k for Q2 2007. This result reflects a continued growth in Phoslock's businesses.

Importantly, PWS's pipeline of potential large applications (greater than 500 tons) has grown in size with several expected to commit to full scale applications in the current quarter.

The work over the last two years has resulted in widespread validation of Phoslock's technology as a remediator of water bodies with high phosphorus levels, as a solution for persistent algal problems and as a capping material that stops the remobilisation of phosphorus from water body sediments.

PWS and various licensees in Europe and North America are currently working with customers on seven large applications (greater than 500 tons) as well as many smaller applications. In most instances detailed proposals are with customers who have endorsed Phoslock as the technology of choice to remediate their waterbody.

PWS continues to monitor results from applications undertaken in the last 18 months. These results have been very positive, reinforcing the long term benefits of Phoslock in water quality maintenance and demonstrating the short and long term efficacy of blue green algal blooms control without any deleterious environmental impacts.

Australia

The two major applications previously reported in March and April have produced excellent results. This has enabled PWS to engage with major water utilities in Australia to develop remediation strategies for various water supply water bodies. Preparatory work currently being undertaken has shown the beneficial potential of using Phoslock in maintaining raw water quality and for minimising secondary by-products after treatment.

ASX Code: PHK
Share Price: A\$0.29
Issued Shares: 148.2m
Market Cap: A\$43m
Unlisted Options: 28.2m

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In addition to the work with the major water utilities, PWS is working with a number of local Government authorities on various potential applications. There is a pipeline of over 30 potential Phoslock applications in Australia greater than 5 tons.

International

Several medium to small applications were completed in Europe and UK during the last quarter. PWS is concentrating on marketing for large applications in Italy, Northern Germany and Holland while continuing to undertake smaller applications as part of routine operations.

During the quarter PWS and its European licensees hosted a two day Phoslock technical conference in Bremen, Germany. Over 50 delegates attended from 8 countries. Both PWS and its licensees will generate a meaningful amount of future applications from this marketing initiative in addition to the seven large applications already identified.

In North America, final approvals are being obtained for an October/November application to a large river and lake system. The total potential application is very large and is likely to be spread over a number of years. There are many other lake systems in this area which require similar Phoslock treatments.

As recent international press items have reported the potential demand for Phoslock in China and economically disadvantaged Asian countries is enormous. The water quality in these countries is very poor. PWS has to balance this demand with commercial realities where the customer will honour both the application contracts and meet our commercial expectations. In these areas, PWS is selectively pursuing a number of opportunities that meet these criteria.

In first world Asian countries (Japan, Korea, Taiwan, Singapore) PWS continues to work with its licensees (and potential licensees) developing a Phoslock business in these countries. Meaningful progress was made during the last quarter.

In New Zealand, a further 20 tons was applied to Lake Okareka, near Rotorua. This was the third Phoslock application to this lake. The local authorities are in the final stages of evaluating various performance criteria before undertaking an enormous remediation programme in the coming years. An amount of NZ\$12m has been allocated in their budgets for use of Phoslock in the remediation programme.

Aquaculture

Results from trials with larger prawn farms in South East Asia have produced positive results. The focus of the applications has been to improve water quality and eliminate blue green algae in the growing ponds. Further trials will remain ongoing throughout the balance of 2007.

Several Australian prawn growers are trialling Phoslock in the coming growing season. The sophisticated aquaculture market's needs require attention to the optimum application and outcomes. We are now well advanced in planning for further pilot trials with these growers, based on outcomes to date, that are consistent with their expectations.

Australian Retail Store Network

PWS commenced its retail strategy in Australia in Q2 2006. After 12 months in operation, results have been mixed. PWS has consolidated the retail stores from 72 at its peak to approx 48. A strong relationship has developed with the Total Eden McCracken's group who cover Western Australia, Queensland and parts of NSW and Victoria. Their network covers approx 35 stores and is increasing in size. This group also has an industrial/ local government division who have been very successful in targeting larger customers' waterbodies.

WaterSavr

PWS has secured a number of trials for the use of WaterSavr on large water storages in Australia over the coming months. Recent rains in a number of parts of Australia have increased dam levels. Effectively conserving this water is now a high priority for many reservoir managers.

Liquidity

As at 30th June, 2007 PWS had current assets of approx \$4.5m made up of cash (A\$2.2m), inventory – at cost (A\$1.5m), debtors and other receivables (A\$0.8m).

Given the company's current cash position, anticipated sales and anticipated exercise of November 07 unlisted options (potentially raising approx \$0.7m), the Directors do not see a need for any capital raising in the foreseeable future.

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