PHOSLOCK WATER SOLUTIONS LIMITED

ABN 88 099 555 290

APPENDIX 4D

HALF YEAR REPORT
for the period ended 31 December 2011

Previous Corresponding Reporting Period: 31 December, 2010
Results for Announcement to the Market:

				A$'000
Revenue from Ordinary Activities	up	73%	to	1,192
Earnings before depreciation, amortisation, Tax and interest (EBITDA)	improved	29%	to	(659)
Profit (loss) from ordinary activities after tax attributable to members (NPAT)	improved	36%	to	(714)
Net Profit (loss) for the period attributable to members	improved	38%	to	(725)

The company does not propose to pay any dividends for the six months ended 31 December, 2011.
NTA Backing:
Net tangible asset backing per ordinary security (cents per share):

- 31 December 2011	0.50
- 30 June 2011	0.83

Commentary on Results:
Detailed commentary on results contained in attached Interim Financial Statements.

(Company Secretary) Dated: 27th February, 2012
Robert Schuitema

PHOSLOCK WATER SOLUTIONS LIMITED

and CONTROLLED ENTITIES

ABN 88 099 555 290

INTERIM FINANCIAL REPORT

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

DIRECTORS' REPORT

Your directors submit the financial report of the consolidated group for the half-year ended 31 December 2011.

Directors

The names of directors who held office during or since the end of the half-year:

Mr Laurence Freedman, AM - Non-Executive Chairman

Mr Robert Schuitema – Managing Director

Hon. Pam Allan – Non Executive Director

Review of Operations

The financial performance of the company for the first half of FY11/12 was a significant improvement over the corresponding period. Total Revenue was $1,192,356 which was 73% higher than the corresponding half year. The Loss before Interest Tax and Depreciation & Amortisation (EBITDA) * was ($661,994) versus($929,024) for the corresponding period. Sales for the period were stronger in North America and Europe.

Total operating expenses (including employee costs) for the first half were $1,408,107 (2010:$1,447,520) which was 3% lower than the corresponding period last year. Of the five main expenses items, only sales & marketing expenses were higher than the corresponding period. Employee costs were 2% lower.

As at 31 December, 2011 the Company had Net Assets of $1.1 million including cash of $360,034. The Company is debt free (other than normal trade creditors). Current Assets less Current Liabilities were $1.2 million as at the half year end.

For the last 6 months the break down of sales revenue was North America (40%), Europe/UK (35%), Asian (11%) and13% Australia (13%).The business development in the United States has been strong with strong penetration in this market and a large pipeline of future applications identified. Several noteworthy applications were undertaken in Europe and the United Kingdom during the last six months

The Company achieved a major milestone in November, 2011 when *Phoslock* received North American Drinking Water certification – NSF/ANSI 60. This certification will significantly assist the Phoslock business in both North America and globally.

The result for the second half of FY11/12 is dependent on several medium/large orders being secured. Customers have recently received orders for approx $250,000 of product which is being supplied to customers. The Company's sales pipeline is extensive with over 50 projects in North America, Europe & United Kingdom and Australia. The conversion from pipeline to sale has been strong over the last 12 months with nearly a 1,000 tons of Phoslock sold to customers.

The Company recently entered into a loan facility with the Link Traders (Aust) Pty Ltd (a company defined as a related party to the Chairman) for a $1 million working capital facility with a maturity in March, 2013. This facility, provided on normal commercial terms and approved by the independent directors, will be used to fund working capital required for inventory and debtor management.

At the date this report the consolidated entity had cash reserves and undrawn facilities of approx. $900,000 from which to fund future operations. The Company recently paid approx. $450,000 to IETC for a large purchase of Phoslock inventory which will be used for current and expected orders from North America and Europe

*EBITDA for first half FY2011/12 calculated as ($725,123) loss plus add back of Depreciation & Amortisation ($33,340) plus Finance cost ($29,789) = ($661,994)

*EBITDA for first half FY2010/11 calculated as ($1,169,846) loss plus add back of Depreciation & Amortisation ($220,243) plus Finance cost ($20,579) = ($929,024)

DIRECTORS' REPORT

Auditor's Declaration

The lead auditor's independence declaration under s 307C of the *Corporations Act 2001* is set out on page 4 for the half-year ended 31 December 2011.

This report is signed in accordance with a resolution of the Board of Directors.

……….

Robert Schuitema
Director
Dated this 27th day of February, 2012.

The accompanying notes form part of this financial report.

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Member Crowe Horwath International

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A WHK Group Firm

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the directors of Phoslock Water Solutions Limited

I declare that to the best of my knowledge and belief, during the half-year ended 31 December 2011, there have been:

i. no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

Crowe Horwath, Brisbane

Crowe Horwath Brisbane

Vanessa de Waal
Partner

Signed at Brisbane, 27 February 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	Note	31.12.2011	31.12.2010
		$	$
Revenue	2	936,373	361,969
Cost of sales		(436,143)	(170,669)
Gross profit		500,230	191,300
Other income	2	255,983	327,195
Distribution expenses		(44,923)	(101,353)
Marketing expenses		(189,717)	(161,525)
Occupancy expenses		(78,435)	(84,914)
Administrative expenses		(298,032)	(305,055)
Employee benefits expense		(731,168)	(743,801)
Depreciation and amortisation		(33,440)	(220,243)
Finance costs		(29,789)	(20,579)
Other expenses		(65,832)	(50,872)
Bad Debt Written Off		(10,000)	-
Loss before income tax benefit		(725,123)	(1,169,846)
Income tax benefit		-	-
Loss for the period		(725,123)	(1,169,846)
Other comprehensive income			
Exchange differences arising on translation of foreign controlled subsidiaries		14,109	(14,613)
Total comprehensive income / (loss) for the period		(711,014)	(1,155,233)
Loss for the period attributable to:			
Members of the parent entity		(713,876)	(1,116,055)
Non-controlling interests		(11,247)	(53,791)
		(725,123)	(1,169,846)
Total comprehensive income / (loss) attributable to:			
Members of the parent entity		(708,442)	(1,098,415)
Non-controlling interests		(2,572)	(56,818)
		(711,014)	(1,155,233)
Earnings per share			
Basic earnings per share (cents)		(0.34)	(0.55)
Diluted earnings per share (cents)		(0.34)	(0.55)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	Note	31.12.2011	30.06.2011
		$	$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		360,034	509,588
Trade and other receivables		858,345	910,129
Inventories		405,942	796,114
Other current assets		49,129	63,333
TOTAL CURRENT ASSETS		1,673,450	2,279,164
NON-CURRENT ASSETS			
Trade and other receivables		11,708	192,517
Property, plant and equipment		144,412	165,227
TOTAL NON-CURRENT ASSSETS		156,120	357,744
TOTAL ASSETS		1,829,570	2,636,908
CURRENT LIABILITIES			
Trade and other payables		163,555	339,857
Financial liabilities		7,132	9,510
Short-term provisions		264,085	144,318
TOTAL CURRENT LIABILITIES		434,772	493,685
NON-CURRENT LIABILITIES			
Financial liabilities		217,303	274,123
Other long-term provisions		106,638	91,729
TOTAL NON-CURRENT LIABILITIES		323,941	365,852
TOTAL LIABILITIES		758,713	859,537
NET ASSETS		1,070,857	1,777,371
EQUITY			
Issued capital	5	30,593,802	30,589,302
Reserves		160,824	155,390
Accumulated losses		(29,499,224)	(28,785,348)
Owners interest		1,255,402	1,959,344
Non-controlling interest		(184,545)	(181,973)
TOTAL EQUITY	4	1,070,857	1,777,371

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	Note	Issued Capital Ordinary	Option reserves	Foreign currency translation reserves	Non-controlling Interests	Accumulated losses	Total
		$			$	$	$
Balance at 1.7.2010		29,282,930	1,006,753	197,270	(70,583)	(25,712,862)	4,703,508
Total comprehensive income							
Net loss for the period		-	-	-	(53,791)	(1,116,055)	(1,169,846)
Exchange differences arising on translation of foreign controlled subsidiaries		-	-	17,640	(3,027)	-	14,613
Total comprehensive income		-	-	17,640	(56,818)	(1,116,055)	(1,155,233)
Transactions with owners in their capacity as owners							
Shares issued during the period		1,320,000	-	-	-	-	1,320,000
Transaction costs		(13,629)					(13,629)
Options expense		-	-	-	-	-	-
Total transactions with owners in their capacity as owners		1,306,371	-	-	-	-	1,306,371
Balance at 31.12.2010		30,589,301	1,006,753	214,910	(127,401)	(26,828,917)	4,854,646
Balance at 1.7.2011		30,589,302	-	155,390	(181,973)	(28,785,348)	1,777,371
Total comprehensive income							
Net loss for the period		-	-	-	(11,247)	(713,876)	(725,123)
Exchange differences arising on translation of foreign controlled subsidiaries		-	-	5,434	8,675	-	14,109
Total comprehensive income		-	-	5,434	(2,572)	(713,876)	(711,014)
Transactions with owners in their capacity as owners							
Shares issued during the period		6,000	-	-	-	-	6,000
Transaction costs		(1,500)	-	-	-	-	(1,500)
Total transactions with owners in their capacity as owners		4.500	-	-	-	-	4,500
Balance at 31.12.2011	5	30,593,802	-	160,824	(184,545)	(29,499,224)	1,070,857

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	31.12.2011	31.12.2010
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	1,379,898	446,351
Payments to suppliers and employees	(1,511,191)	(1,468,741)
Interest received	5,151	17,138
Finance costs	(29,790)	(20,579)
Net cash (used in)/provided by operating activities	(155,932)	(1,025,831)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant & equipment	-	24,997
Purchase of property, plant & equipment	(5,611)	(3,237)
Net cash used in investing activities	(5,611)	21,760
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	58,500	1,175,000
Proceeds from borrowings (net)	(48,871)	32,135
Transaction costs	(1,500)	(13,629)
Net cash used in/(provided by) financing activities	8,129	1,193,506
Net increase/(decrease) in cash and cash equivalents held	(153,414)	189,435
Cash and cash equivalents at beginning of period	509,588	462,883
Effects of exchange rates on cash holdings in foreign currencies	3,860	(18,012)
Cash and cash equivalents at end of period	360,034	634,306

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

NOTE 1: BASIS OF PREPARATION

These general purpose financial statements for the interim half-year reporting period ended 31 December 2011 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standards AASB 134: Interim Financial Reporting. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting 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 2011, 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	31.12.2011	31.12.2010
	$	$
NOTE 2: REVENUE		
Sales revenue	936,373	361,969
Interest received	5,151	14,428
Other revenue	3,292	13,817
Export development and R&D grants	247,540	298,950
Total other income	255,983	327,195
Total revenue	1,192,356	689,164
NOTE 3: OPERATING EXPENSES		
Distribution expenses	44,923	101,353
Administration expenses	298,032	305,055
Marketing expenses	189,717	161,525
Occupancy expenses	78,435	84,914
Other expenses	65,832	50,872
Total expenses	676,939	703,719

NOTE 4: OPERATING SEGMENTS

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 and Asia. 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, North America 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.

NOTE 4: OPERATING SEGMENTS (CONT'D)

Inter-segment transactions

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:

- income tax expense;
- deferred tax assets and liabilities;
- intangible assets;

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

NOTE 4: OPERATING SEGMENTS (CONT'D)

(i) Segment performance

	Australia/NZ	**Europe/UK**	**North America**	**Asia**	**Total**	**Eliminations**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**
Six months ended 31.12.2011							
Revenue							
External sales	121,622	337,049	378,200	99,502	936,373	-	936,373
Inter-segment sales	-	168,903	-	-	168,903	(168,903)	-
Other revenue	243,632	7,200	-	-	250,832	-	250,832
Total segment revenue	365,254	513,152	378,200	99,502	1,356,108	(168,903)	1,187,205
Reconciliation of segment revenue to group revenue							
Unallocated interest income							5,151
Total group revenue							1,192,356
Segment loss before income tax	(320,285)	(11,418)	10,000	(42,159)	(363,862)	-	(363,862)
Reconciliation of segment result to group net profit/(loss) before tax							
Amounts not included in segment result but reviewed by the Board:							
• Depreciation and amortisation	(7,989)	-	-	(25,451)	(33,440)	-	(33,440)
Unallocated items:							
• Corporate charges							(298,032)
• Finance costs							(29,789)
Loss before income tax from continuing operations							(725,123)

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

NOTE 4: OPERATING SEGMENTS (CONT'D)

(i) Segment performance

	Australia/NZ	Europe/UK	North America	Asia	Total	Eliminations	Total
	$	$	$	$	$	$	$
Six months ended 31.12.2010							
Revenue							
External sales	160,974	128,515	35,200	37,280	361,969	-	361,969
Inter-segment sales	1,642	-	-	64,208	65 ,850	(65,850)	-
Other revenue	312,767		-	-			312,767
Total segment revenue	475,383	128,515	35,200	101,488	740,586	(65,850)	674,736
Reconciliation of segment revenue to group revenue							
Unallocated interest income							14,428
Total group revenue							689,164
Segment loss before tax	(349,557)	(190,528)	(40,000)	(100,817)	(680,902)	-	(680,902)
Reconciliation of segment result to group net profit/(loss) before tax							
Amounts not included in segment result but reviewed by the Board:							
• Depreciation and amortisation	(187,836)	(680)	-	(31,727)	(220,243)	-	(220,243)
Unallocated items:							
• Corporate charges							(248,122)
• Finance costs							(20,579)
Loss before income tax from continuing operations							(1,169,846)

(ii) Segment assets

	Australia/NZ	Europe/UK	North America	Asia	Total	Elimination	Total
	$	$	$	$	$	$	$
31.12.2011							
Segment assets	2,934,441	244,564	-	291,136	3,470,141	(1,640,571)	1,829,570
Unallocated assets:							
• Intangibles					-	-	-
					3,470,141	(1,640,571)	1,829,570
30.6.2011							
Segment assets	2,517,834	105,523	-	356,632	2,979,989	(343,081)	2,636,908
Unallocated assets:							
• Intangibles					-	-	
Total group assets from continuing operations					2,979,989	(343,081)	2,636,908

(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 35% of external sales revenue (2010; 36%). The next most significant client accounts for 19% (2010; 29%) of external sales revenue.

NOTE 5: SHARE CAPITAL

	31.12.2011		30.06.2011	
	Number	**$**	**Number**	**$**
At the beginning of the period	212,930,580	30,589,302	186,530,580	29,282,930
6 September 2010			22,000,000	1,100,000
24 September 2010			1,500,000	75,000
30 November 2010			2,900,000	145,000
30 November 2011	100,000	6,000		
Transaction costs		(1,500)	-	(13,628)
Balance at end of reporting period	213,030,580	30,593,802	212,930,580	30,589,302

NOTE 6: CONTINGENT LIABILITIES

The company has entered into factoring arrangements (sale of debtor invoices to third parties) totalling $740,920.00. The debtor invoices are for customers of the Phoslock Group. The company is liable to the lender for any amounts which become due and payable as a result of a default on behalf of the debtor or foreign exchange movement. The company is unable to estimate any amounts which may become payable under these arrangements.

There has been no other change in contingent liabilities since the last annual reporting date.

NOTE 7: EVENTS SUBSEQUENT TO REPORTING DATE

On 21 February, 2012 Phoslock Pty Ltd entered into an unsecured loan facility for up to A$1,000,000.00 with Link Traders (Aust) Pty Ltd with a maturity date of 29 March, 2013. The loan facility can be drawn for minimum amounts of $200,000 per drawing. The facility will be used for working capital requirements.

Link Traders (Aust) Pty Ltd is a company controlled by Mr Laurence Freedman, the Non-Executive Chairman of Phoslock Water Solutions Ltd.

The loan facility is on normal commercial terms and was approved and signed by Robert Schuitema (Managing Director) and Hon. Pam Allan (independent Non-Executive Director).

NOTE 8: DIVIDENDS PAID OR PAYABLE

No dividends have been paid or declared during the period (2010: $nil).

NOTE 9: GOING CONCERN

The consolidated entity recorded an operating loss after eliminating non-controlling interests of $713,876 for the six months ended 31 December 2011 (31 December 2010:$1,116,055) in respect of the principal activities relating to the commercialisation of Phoslock and at that date had accumulated losses of $29,499,224 (30 June 2011: $28,785,348)). The consolidated entity had Net Assets totalling $1,070,857 at 31 December 2011.

The current period sales from Phoslock amounted to $936,373, which were significantly higher than FY2010/11 first half however less than management's forecast of sales for the period. The realisation of the company's sales pipeline continues to have an impact on the company's cash flow and operating performance

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

The above matters create a material uncertainty that may cast significant doubt as to the ability of the company to continue as a going concern and, therefore it may be unable to realise its assets and discharge is liabilities in the normal course of business.

The director's have prepared the financial report of the consolidated entity on the going concern basis, which assumes that the company will be able to discharge its liabilities and realise its assets in the ordinary course of business, on the following basis:

- The Company has prepared detailed cash flow forecasts and assumptions for the period ending 12 months after the date of this report, and the directors consider that the cash flow forecasts are reasonable in the circumstances to support the Company's continued going concern.

  The budget for 2012 approved by the directors, which underpins the abovementioned cash flow forecasts, is dependent on sales revenue of $4.1 million , at the same gross profit margin as the previous year, and cash operating costs of $2.4 million (net of government grants). The forecast sales revenue will require the purchase of approx. $2million of inventory during the period.

  The Directors will continue to monitor the Company's progress against the cash flow forecasts on a regular basis.

- The company has successfully negotiated an unsecured working capital facility of $1millon post the balance date. The facility will be used to fund the ongoing working capital requirements and can be drawn down throughout the period as required. Interest under the facility is payable on a monthly basis and under the current agreement. The facility is repayable by March 2013.

- The Company may undertake an equity raising during 2012. The directors consider that any capital raising activities which are required to fund operating cash flow shortages will be successful based on the company's prior capital raising initiatives.

Working capital at the year end together with that generated by achieving the forecast budget, and the availability of undrawn funds, will ensure the company has sufficient funds in the next 12 months to meet its liabilities. Any reduction in sales will require the board to consider additional capital funding.

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 6 to 17 are in accordance with the *Corporations Act 2001*, including:
    a. complying with Accounting Standard AASB 134: Interim Financial Reporting; and
    b. giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date.
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 payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Director

Robert Schuitema

Dated this 27th day of February, 2012

Independent Auditor's Review Report

To the Members of Phoslock Water Solutions Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Phoslock Water Solutions Limited and controlled entities, which comprises the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the half-year financial report that is if 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 financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Phoslock Water Solutions Limited, 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:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 9 , in the financial report, which indicates that the consolidated entity incurred a net loss of $713,876 during the period ended 31 December 2011 and had accumulated losses totalling $29,499,224 at 31 December 2011. These conditions, along with the other matters set forth in Note 9, indicate 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.

Crowe Horwath Brisbane

Crowe Horwath Brisbane

Vanessa de Waal
Partner

Signed at Brisbane, 27 February 2012

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Independent Auditor's Review Report

To the Members of Phoslock Water Solutions Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Phoslock Water Solutions Limited and controlled entities, which comprises the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the half-year financial report that is if 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 financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Phoslock Water Solutions Limited, 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:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 9 , in the financial report, which indicates that the consolidated entity incurred a net loss of $713,876 during the period ended 31 December 2011 and had accumulated losses totalling $29,499,224 at 31 December 2011. These conditions, along with the other matters set forth in Note 9, indicate 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.

Crowe Horwath Brisbane

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Vanessa de Waal
Partner

Signed at Brisbane, 27 February 2012