PHOSLOCK®

Phoslock Water Solutions Limited and controlled entities

A.B.N. 88 099 555 290

APPENDIX 4D

HALF YEAR REPORT FOR THE PERIOD ENDED 31 DECEMBER 2012

Previous Corresponding Reporting Period: 31 December, 2011

Results for Announcement to the Market:			A$'000
Revenue from Ordinary Activities	down	38% to	735
Earnings before depreciation, tax and interest (EBITDA)	down	30% to	-860
Profit (loss) from ordinary activities after tax attributable to members (NPAT)	down	41% to	-1,022
Net Profit (loss) for the period attributable to members	down	40% to	-993

The company does not propose to pay any dividends for the six months ended 31 December, 2012.

NTA Backing:
Net tangible asset backing per ordinary security (cents per share):

- 31 December, 2012	(0.46)
- 30 June, 2012	(0.34)

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

(Company Secretary)
Robert Schuitema

Dated: 26 February, 2013

Phoslock Water Solutions Limited and Controlled Entities
A.B.N. 88 099 555 290
INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2012

I N D E X

DIRECTOR'S REPORT

Your directors present their report on the Company and its controlled entities (“the consolidated entity”) for the half year ended 31 December 2012.

Directors
The names of directors in office at anytime during the year or since the end of the half year are:

Mr Laurence Freedman AM
Mr Robert Schuitema
The Hon. Pam Allan

Review of Operations
Revenues recorded for the year of $734,910 represent a 38% decrease over the corresponding six month period. The major sales areas were Europe, North America and Australia along with access to Australian Government Grants for both export development and ongoing research and development. Revenues were affected by a number of near term orders being delayed from October-December 2012 to the first half of 2013. Sales orders received from 1 January 2013 to the date of this report total $450,000.

Operating expenses (excluding depreciation and amortisation,consulting costs, finance, impairment of receivables) for the 6 months decreased by 3.3% to $1,299,978 (2011:$1,342,275). This was mainly attributable to lower employee costs, marketing costs (Asia and Europe) and offset by higher administrative costs (mainly from overseas operations) and distribution expenses.

The loss for the 6 months of the consolidated entity after providing for non-controlling interests amounted to $956,372 (2011: ($713,876)).

Earnings before depreciation and amortisation, tax and interest and impairment losses (EBITDA) for the 6 months was ($859,904) which 30% lower than the previous period (FY2011: $659,000).

Although the Company recorded a loss for the latest 6 months the company believes that the outlook for the business remains very positive. A number of projects scheduled for application in the first half of FY12-13 were delayed to later in the year due to one of two reasons – approvals and/or finalising funding. During the second half of 2012 the Company focused on its key markets of Australia, Europe and United Kingdom and North America. The company is working on several large projects in Asia.

Sales from the European/UK region were lower than previous periods however two orders totalling over $450,000 have been secured in early 2013 for application over the next month. 42 lake projects have been completed since early 2007 in Europe/UK. The company has an excellent relationship with our European partner, Bentophos.

Major progress was made during the year in the development of the Phoslock business in North America, and in particular the United States. Our US licensee, SePRO Corporation, has dedicated significant resources to develop Phoslock in this market since taking over the license in 2011. Sales to 31 December 2012 were in line with the original sales forecasts, but could have been a lot higher if permits for several applications were received earlier.

The company and its licensees, are currently working on 64 separate projects in our key markets - 6 with project size > $1 million; 30 with a project value $100,000 to $1 million and 28 with a project size in the $20,000 to $100,000 range.

The key to PWS’s growth and development is increasing sales by converting its extensive pipeline into sales.

Auditor’s Independence Declaration
The lead auditor’s independence declaration in accordance with Section 307C of the *Corporations Act 2001*, for the half year ended 31 December 2012 has been received and can be found on page 2 of the directors’report.

Signed in accordance with a resolution of the Board of Directors of Phoslock Water Solutions Limited.

Mr Robert Schuitema
Managing Director

Dated at Sydney, 26 February 2013

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A WHK Group Firm

Auditor's Independence Declaration

As lead auditor for the review of Phoslock Water Solutions Limited for the half year ended 31 December 2012, I declare that, to the best of my knowledge and belief, there have been:

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

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

This declaration is in respect of Phoslock Water Solutions Limited and the entities it controlled during the period.

Crowe Horwath Brisbane

Crowe Horwath Brisbane

Vanessa De Waal
Partner

Signed in Brisbane 26 February 2013

Phoslock Water Solutions Limited and Controlled Entities
A.B.N. 88 099 555 290
INTERIM FINANCIAL REPORT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2012

	NOTE	31.12.2012 $	31.12.2011 $
Sales revenue	2	571,511	936,373
Cost of sales		(279,428)	(436,144)
Gross profit		292,083	500,229
Other revenue	2	163,399	255,983
Distribution expenses		(71,099)	(44,923)
Marketing expenses		(181,388)	(189,717)
Occupancy expenses		(79,398)	(78,435)
Administrative expenses		(317,033)	(298,032)
Employee benefit expenses		(651,062)	(731,168)
Depreciation and amortisation		(31,451)	(33,440)
Finance costs		(128,630)	(29,789)
Other expenses		(17,735)	(65,833)
Impairment of receivables		-	(10,000)
LOSS BEFORE INCOME TAX		(1,022,314)	(725,123)
Income tax expense/ (revenue)		-	-
LOSS FOR THE PERIOD		(1,022,314)	(725,123)
OTHER COMPREHENSIVE INCOME			
Exhange differences arising on translation of foreign controlled entities		29,642	14,109
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(992,672)	(711,014)
Profit (Loss) for the period attributable to:			
- Owners of parent entity		(956,372)	(713,876)
- non-controlling interest		(65,942)	(11,247)
Total loss for the period		(1,022,314)	(725,123)
Total comprehensive loss for the period attributable to:			
- Owners of parent entity		(924,234)	(708,442)
- non-controlling interest		(68,438)	(2,572)
Total comprehensive loss for the period		(992,672)	(711,014)
Earnings per share			
Basic earnings per share (cents per share)		(0.46)	(0.34)
Diluted earnings per share (cents per share)		(0.46)	(0.34)

The accompanying notes form part of these financial statements

Phoslock Water Solutions Limited and Controlled Entities
A.B.N. 88 099 555 290
INTERIM FINANCIAL REPORT

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

	NOTE	31.12.2012 $	Restated 31.06.2012 $
CURRENT ASSETS			
Cash and cash equivalents		151,093	351,224
Trade and other receivables		511,224	656,905
Inventories		356,583	630,060
Other assets		37,128	56,558
Financial assets		35,349	33,157
TOTAL CURRENT ASSETS		1,091,377	1,727,904
NON-CURRENT ASSETS			
Trade and other receivables		-	8,562
Plant and equipment		164,759	194,607
TOTAL NON-CURRENT ASSETS		164,759	203,169
TOTAL ASSETS		1,256,136	1,931,072
CURRENT LIABILITIES			
Trade and other payables		253,657	286,044
Financial liabilities		1,657,852	1,346,685
Short term provisions		267,710	204,631
TOTAL CURRENT LIABILITIES		2,179,219	1,837,360
NON-CURRENT LIABILITIES			
Long term provisions		97,656	121,780
TOTAL NON-CURRENT LIABILITIES		97,656	121,780
TOTAL LIABILITIES		2,276,875	1,959,140
NET ASSETS/(LIABILITIES)		(1,020,739)	(28,067)
EQUITY			
Issued capital	5	30,632,302	30,632,302
Reserves		233,044	200,906
Accumulated losses		(31,612,499)	(30,656,127)
Owners interest		(747,153)	177,081
Non-controlling interest		(273,586)	(205,148)
TOTAL EQUITY	4	(1,020,739)	(28,067)

The accompanying notes form part of these financial statements

Phoslock Water Solutions Limited and Controlled Entities
A.B.N. 88 099 555 290
INTERIM FINANCIAL REPORT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2012

	Note	Issued capital $	Foreign currency translation reserves $	Non-controlling interest $	Accumulated losses $	Total $
Balance at 1 July 2011		30,589,302	155,390	(181,973)	(28,935,458)	1,627,261
Total comprehensive income						
Loss for the period		-	-	(11,247)	(713,876)	(725,123)
Other comprehensive income		-	5,434	8,675	-	14,109
Total comprehensive loss for the period		-	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 December 2011		30,593,802	160,824	(184,545)	(29,649,334)	920,747
Balance at 1 July 2012		30,632,302	200,906	(205,148)	(30,684,826)	(56,766)
Prior Period Adjustment	10	-	-	-	28,699	28,699
Restated balance at 1 July 2012		30,632,302	200,906	(205,148)	(30,656,127)	(28,067)
Total comprehensive income for the period						
Loss for the period		-	-	(65,942)	(956,372)	(1,022,314)
Other comprehensive income		-	32,138	(2,496)	-	29,642
Total comprehensive loss for the period		-	32,138	(68,438)	(956,372)	(992,672)
Transactions with owners in their capacity as owners						
Shares issued during the period		-	-	-	-	-
Transaction costs		-	-	-		-
Total transactions with owners in their capacity as owners		-	-	-	-	-
Balance at 31 December 2012		30,632,302	233,044	(273,586)	(31,612,499)	(1,020,739)

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2012

	NOTE	31.12.2012 $	Restated 31.12.2011 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		890,152	1,379,898
Payments to suppliers and employees		(1,253,156)	(1,511,191)
Interest received		1,489	5,151
Finance costs		(77,456)	(29,790)
NET CASH FROM / (USED IN) OPERATING ACTIVITIES		(438,971)	(155,932)
CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES			
Increase in term deposits		(2,192)	(1,876)
Purchase of property, plant and equipment		(44,704)	(5,611)
NET CASH FROM / (USED IN) INVESTING ACTIVITIES		(46,896)	(7,487)
CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES			
Proceeds from share issue		-	58,500
Transaction costs		-	(1,500)
Proceeds/(Repayment) from/of borrowings (net)		284,851	(48,871)
NET CASH FROM / (USED IN) FINANCING ACTIVITIES		284,851	8,129
Net increase/(decrease) in cash and cash equivalents held		(201,016)	(155,290)
Cash and cash equivalents at the beginning of the period		351,224	478,307
Effect of exchange rates on cash holdings in foreign currencies		885	3,860
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		151,093	326,877

The accompanying notes form part of these financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2012

NOTE 1 BASIS OF PREPARATION

These general purpose financial statements for the interim half-year reporting period ended 31 December 2012 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 2012, 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.

NOTE 2 REVENUE	**31.12.2012 $**	**31.12.2011 $**
Sales Revenue	571,511	936,373
Other income		
- interest received	2,329	5,151
- other income	7,387	3,292
- export development/r&d grants	153,683	247,540
Total other income	163,399	255,983
Total revenue	734,910	1,192,356

NOTE 3 OPERATING EXPENSES		
Distribution expenses	71,099	44,923
Administrative expenses	317,033	298,032
Marketing expenses	181,388	189,717
Occupancy expenses	79,398	78,435
Other expenses	17,735	65,832
Total expenses	666,653	676,939

NOTE 4 SEGMENT REPORTING

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.

Inter-segment transactions

An internally determined transfer price is set for all inter-entity sales. This price is based on what would be realised in the event the sale was made to an external party at arm's-length. All such transactions are eliminated on consolidation for the Groups financial statements.

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2012**

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 item*s

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:

• net gains on disposal of available-for-sale investments;
• income tax expense;
• deferred tax assets and liabilities;
• intangible assets.

(i) Segment performance

	Australia/NZ	Europe/UK	North America	Asia	Total	Eliminations	Total
Six months ended 31 December 2012							
Revenue							
External sales	97,442	86,019	366,689	21,361	571,511	-	571,511
Inter-segment sales		53,980			53,980	(53,980)	-
Other revenue	161,070	-			161,070	-	161,070
Total segment revenue	258,512	139,999	366,689	21,361	786,561	(53,980)	732,581
Reconcilliation of segment revenue to group revenue							
Unallocated interest income							2,329
Total group revenue							734,910
Segment loss before tax	(494,302)	(80,414)	35,000	(5,484)	(545,200)	-	(545,200)
Reconcilliation of segment result to group net profit/(loss) before tax							
Amounts not included in segment result but reviewed by the Board							
- Depreciation and amortisation	(14,091)			(17,360)	(31,451)	-	(31,451)
Unallocated items:							
- Corporate charges							(317,033)
- Finance costs							(128,630)
Loss before income tax from continuing operations							(1,022,314)
Six months ended 31 December 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
Reconcilliation of segment revenue							
Unallocated interest income							5,151
Total group revenue							1,192,356
Segment loss before tax	(320,285)	(11,418)	10,000	(42,159)	(363,862)	-	(363,862)
Reconcilliation of segment result to							
Amounts not included in segment							
- 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)

(ii) Segment assets							
31 December 2012							
Segment assets	3,899,036	105,861	-	191,478	4,196,375	(2,940,239)	1,256,136
Unallocated assets - intangibles							
Total group assets							1,256,136
30 June 2012							
Segment assets	4,492,969	101,398	-	280,194	4,874,561	(2,943,489)	1,931,072
Unallocated assets - intangibles							-
Total group assets							1,931,072
(iii) Segment liabilities							
31 December 2012							
Segment liabilities	3,177,026	1,076,472	0	296,255	4,549,753	(2,272,878)	2,276,875
Unallocated liabilities							
Total group liabilities							2,276,875
30 June 2012							
Segment liabilities	2,863,189	949,693	-	299,214	4,112,096	(2,152,956)	1,959,140
Unallocated liabilities							
Total group liabilities							1,959,140

(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 for 43% of external revenue (2011:33%)

NOTE 5 SHARE CAPITAL

	31.12.12		30.06.12	
	No.	**$**	**No.**	**$**
At the beginning of the period	213,530,580	30,632,302	212,930,580	30,589,302
Shares issued during the period				
- 29 November 2011	-	-	100,000	6,000
- 22 March 2012	-	-	500,000	40,000
Transaction costs		-		(3,000)
Balance at the end of the period	213,530,580	30,632,302	213,530,580	30,632,302

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholder meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

NOTE 6 CONTINGENT LIABILITIES

The company has entered into factoring arrangements (sale of debtor invoices to third parties) totalling $479,744. 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 THE REPORTING DATE

On 7 February, 2013, Phoslock Water Solutions Limited closed the Share Purchase Plan , receiving a total of $1,065,663. On 14 February, 2013 Phoslock Water Solutions Limited allotted 23,166,587 shares under the Share Purchase Plan. On 22 February, 2013 the company raised $132,000 from a placement to shareholders unable to take shares up in the SPP. 2,869,565 shares were alloted to these shareholders on 25 February, 2013.

On 15 February, 2013 shareholders approved the issue of 1,300 $1,000 Convertible Notes to Link Traders (Aust) Pty Ltd with a maturity date of 31 December, 2013. On 18 February, 2013 Phoslock Pty Ltd repaid the unsecured loan facility from Link Traders (Aust) Pty Ltd of $1,298,300. On the same date, Link Traders (Aust) Pty Ltd subscribed for 1,300 $1,000 Convertible Notes issued by Phoslock Water Solutions Ltd.

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

On 15 February, 2013 shareholders approved the issue of 15 million share options at 10 cents to Robert Schuitema, Managing Director. A further 5.5 million share options were issued to other company executives on 22 February 2013, 2.75 million of these were issued at 10 cents and the remaining 2.75 million were issued at 12 cents. These options are subject to individual performance conditions.

There were no other events since 31 December, 2012 which would significantly affect the consolidated entity's operations.

NOTE 8 DIVIDENDS PAID OR PAYABLE

No dividends have been paid or declared during the period (2011: $nil).

NOTE 9 GOING CONCERN

The consolidated entity has incurred a significant loss after income tax of $992,672 (2011: $711,014), for the six months ended 31 December 2012 in respect of the principal activities relating to the commercialisation of Phoslock. The consolidated entity has accumulated losses of $31,612,499 (30 June 2012 restated: $30,656,127) as at 31 December 2012. The company has net liabilities of $1,020,739 (30 June 2012 restated: $28,067); net current liabilities of $1,087,842 (June 2012: $109,456) and an unsecured loan facility of approx $1.3 million which was scheduled to mature on 29 March, 2013. This was fully repaid on 18 February, 2013. Convertible Notes totalling $1.3 million were issued on the same date which are either repayable or convertible in to Phoslock shares on or before 31 December 2013. The joint venture agreement with IETC is due to expire in December 2013.

NOTE 9 GOING CONCERN cont.

The revenue for the 6 months totalled $0.73 million, which was less than management's forecast of between $1.5 -2 million. The reduced sales in the current period have had an impact on the company's cashflow and operating performance. The recently completed Share Purchase Plan raising $1,065,000 has improved liquidity of the company.

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 total liabilities of the company as at 31 December 2012 totalled $2,276,877 (2012:$1,959,140) made up of trade creditors ($253,658), employee entitlements accrued ($365,366), loan by joint venture partner to Phoslock Europe ($262,614), and short term loans of $1,395,238. Included in the short term loans is an amount of $1,298,921 which relates to an unsecured loan facility repayable on 31 March, 2013. The loan was repaid on 18 February, 2013 and replaced with $1,300,000 Convertible Notes due 31 December, 2013.

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 February 2013 to March 2014 (13 month period), and the directors consider that the cash flow forecasts are reasonable in the circumstances to support the Company's continued going concern.

The cashflow forecast approved by the directors, which underpins the abovementioned cash flow forecasts, is dependent on sales revenue of $3.8 million , at the same the gross profit margin slightly reduced from the previous year (due to a higher A$), and cash operating costs of $3.3 million (net of government grants).

This level of revenue would generate slightly negative cash flows from operations and earnings before interest, income tax, depreciation and amortisation and an estimated consolidated net loss of $400,000.

The company has trade receivables of $511,224 as at 31 December, 2012 on normal commercial terms. The company has the ability to factor receivables as required to support the working capital needs of the group.

The manufacturing joint venture with IETC has a 10 year fixed life which expires in December, 2013. The parties have agreed not to extend the life of the joint venture beyond the scheduled expiry date. The company will continue to produce Phoslock from the factory during 2013. The company is currently assessing other manufacturing alternatives, including toll manufacturing, which would not involve major capital expenditure.

Achieving the forecast budget, together with the existing working capital and receivable factoring arrangements, renegotiation of the unsecured loan facility and collection of trade receivables at 31 December 2012, will ensure the company has sufficient funds from existing cash and assets, and generated by operations in the next 12 months to meet its liabilities. Any reduction in sales or requirement to repay the Converting Notes will require the board to consider capital funding.

The company has forecast operating costs of $190,000 per month. The company has the ability to contain these costs within the limits set.

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

The company, and its licensees, are currently working on 64 separate projects in our key markets of Europe/UK, North America, Australia and Asia - 6 with project value > $1 million; 30 with a project value in the $100,000 to $1 million range and 28 with a project value in the $20,000 to $100,000 range.

The Company recently completed a Share Purchase Plan raising approx $1.2m. The company may consider a small additional equity raising during 2013 however no decision has been made regarding the amount, the timing ,structure of any offering or whether it would be targeted towards existing equity holders or new equity holders (Australian or international), including strategic partners.

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.

NOTE 10 PRIOR YEAR ADJUSTMENT

(a) The Westpac term facility of $33,157 was incorrectly classified as cash and cash equivalents at 30 June 2012. The term of the deposit is in excess of 90 days and is therefore not considered to be cash and cash equivalents. This amount has been reclassified to financial assets as noted below.

(b) During the period between January 2012 and June 2012 a factoring agreement was entered into and the interest relating to this agreement was incorrectly recognised in full in the June 2012 year instead of being accrued as prepaid borrowing costs.

Statement of financial position (extract)

	30 June 2012	**Incr/(decr)**	**30 June 2012 Restated**
	$	**$**	**$**
Cash and cash equilivents	384,381	(33,157)	351,224
Financial assets	-	33,157	33,157
Other assets	27,860	28,699	56,559
Net assets	(56,766)	28,699	(28,067)
Retained earnings	(56,766)	28,699	(28,067)
Total equity	(56,766)	28,699	(28,067)

The statement of cash flows was restated at 31 December 2011 to take into account the reclassification of the Westpac Term facility of $31,280 at 1 July 2011 from cash and cash equivalents to financial assets.

There is no impact on the statement of comprehensive income at 31 December 2011 or on retained earnings as at 1 July 2011. As such no third column is included in the statement of financial position.

Phoslock Water Solutions Limited and Controlled Entities
A.B.N. 88 099 555 290
DIRECTOR'S DECLARATION

The directors of the company declare that:

1 The financial statements and notes set out on pages 3 to 10 are in accordance with the *Corporations Act 2001;* including*:*

   (a) complying with Accounting Standard *AASB 134:Interim Financial Reporting and the Corporations Regulations 2001* ; and

   (b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and 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 of Phoslock Water Solutions Limited.

Robert Schuitema
Director

Dated this 26th day of February 2013

Crowe Horwath

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A WHK Group Firm

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 2012, 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 half-year 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 2012 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 2012 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 $992,672 during the half-year ended 31 December 2012 and had accumulated losses totalling $31,612,499 at 31 December 2012. 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, 26 February 2013