

## **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 2015

Previous Corresponding Reporting Period: 31 December, 2014

| Results for Announcement to the Market:   |             |        | A\$'000 |
|---|-------------|--------|---------|
| Revenue from Ordinary Activities  | Up          | 19% to | 580     |
| Earnings before depreciation, tax and interest (EBITDA)                         | Improvement | 9% to  | (615)   |
| Profit (loss) from ordinary activities after tax attributable to members (NPAT) | Down        | 29% to | (1,096) |
| Net Profit (loss) for the period attributable to members                        | Down        | 10% to | (1,033) |

The company does not propose to pay any dividends for the six months ended 31 December, 2015.

#### NTA Backing:

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

|                     |        |
|---------------------|--------|
| - 31 December, 2015 | (1.63) |
| - 30 June, 2015     | (1.44) |

#### Commentary on Results:

Detailed commentary on results contained in attached Interim Financial Statements



(Company Secretary)  
Robert Schuitema

Dated: 25 February, 2016



**Phoslock Water Solutions Limited and Controlled  
Entities  
A.B.N. 88 099 555 290  
INTERIM FINANCIAL REPORT  
FOR THE HALF YEAR ENDED 31 DECEMBER 2015**

**I N D E X**

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## **DIRECTOR'S REPORT**

Your directors present their report on the Company and its controlled entities ("the Group") for the half year ended 31 December 2015.

### **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**

- \* Receipts for the 6 months totalled \$1,254,705 – up 126% Half Year on Half Year (HOH)
- \* EBITDA of (\$615,465) - improvement 9% HOH
- \* Forecast sales for January-June 2016 of \$1.6 million
- \* Strong and growing project pipeline

Revenues recorded for the period of \$580,121 represent a 19% increase over the corresponding six month period. Additional sales revenue of \$289,830 was received before 31 December, 2015, however this was not recognised as revenue as goods relating to this sale were not dispatched to the customer before 31 December, 2015. This revenue will be included in the second half of FY15-16. The highlight for the period was the awarding of a \$10 million contract in Brazil to clean up Pampulha lake. Phoslock's share of this work is estimated at \$4-5 million and will be spread over 2016 and 2017. The first application is scheduled for April-May 2016. The major sales regions for the six months to 31 December, 2015 were Latin America, North America and Australia. The Company received an Australian Government Grant for ongoing research and development. Sales revenue for the second half of FY2015-16 is forecast to be in significantly higher than the first half with 7 projects valued at over \$1.6 million scheduled to be completed before 30 June, 2016.

The loss for the 6 months of the consolidated entity after providing for non-controlling interests amounted to \$1,109,754 (2014: (\$909,526)). Earnings before depreciation, amortisation, tax and interest (EBITDA) for the 6 months was (\$615,465) (HY2014: \$675,328) an improvement of 9% from 2014. Finance costs were \$467,144 less a benefit of \$121,976, making a net charge of \$345,168, remain very high (HY2014: \$220,185). The bulk of this costs relates to the \$2.05 million Convertible Notes and \$1 million Convertible Security issued to The Australian Special Opportunity Fund (ASOF). The Convertible Notes mature in June 2016 and it is hoped that the conversion conditions will be met. The Convertible Security is repaid in monthly instalments with the final repayment due on 30 June 2016. As at 31 December, 2015 the Convertible Notes and Convertible Security totalled \$2,476,307.

Operating expenses (excluding depreciation, financing and options costs) for the 6 months increased by 0.3% to \$952,295 (HY2014: \$949,132). The 2014 operating expenses were a 16% reduction from the 2013 operating expenses. The Company continues to expense all costs associated with bringing its pipeline projects to completion in the period that they are incurred. This includes technical, external consultants and travel & marketing expenses.

The Company has lodged a subsequent patent application to protect the core Phoslock technology, which is in an advanced stage of being granted in approx 50 countries, with the intention of extending the core Phoslock technology until 2033. During the first six months of FY2015-16, the Company spent \$66,000 on its patent portfolio, the majority of these costs related to the new patent. The review and approval of the new patent in approx. 50 countries is proceeding in accordance with the Company's and patent lawyers' timetable.

Notwithstanding the Group's operating loss, cashflows for the six months were very strong with cash receipts totalling \$1,254,705 (HY2014: \$553,804). Net Cashflows from Operating Activities was (\$74,445) (HY2014: (\$431,147)). During the six months to 31 December, 2015 the Group raised \$152,000 of new equity and a further \$340,000 in January, 2016. The bulk of this came from a placement to a Chinese strategic partner and purchase of the collateral shares issued to ASOF.

Although the Company recorded a loss for the latest 6 months, the Company believes that the outlook for the business remains positive. A number of projects scheduled for application in the first half of FY15-16 were delayed into the second half of FY15-16 including the large Brazilian contract. Reasons for the delays were finalisation of approvals; or finalisation of funding arrangements; as well as the need to complete other work (such as sewage system upgrades and dredging) prior to commencing the application of Phoslock. The Company is forecast a significant improvement in sales in the second half of FY2015-16. The Company's best estimate of sales revenue for the second half of FY2015-16 at the date of this report is \$1.6m based on orders and scheduled deliveries.

Sales from the European/UK region were lower than the previous period however Phoslock Europe has a strong pipeline of 17 projects, with several of the projects scheduled for application in the first half of 2016. To date, Phoslock Europe has completed over 50 lake projects since early 2007. The Company has an excellent relationship with our European partner, Bentophos GmbH.

Solid progress was made during the year in the development of the Phoslock business in North America, in both the United States and Canada. Our US licensee, SePRO Corporation, has dedicated significant resources to develop Phoslock in the United States since taking over the license in 2011. It has developed several niche markets, one of which is growing strongly and has the potential to be a major market for Phoslock. The Company also undertook several projects in Canada in 2015 and several projects are scheduled to take place in the first half of 2016.

In January, 2016 the Group opened a China subsidiary and sales office in Shanghai and employed two Australian Chinese executives to run the office. The key objective is to partner with large environmental companies who have already secured large environmental projects from Chinese provincial governments or the central government and provide specialist services to improve the water quality in lakes, reservoirs, rivers and canals. Initial meetings with a number of large environmental companies have been positive.

The Company continues to expend significant resources on large projects in Asia, South America, Canada and Europe. The potential size of all of these projects is material in both volume and product and monetary value. Over the last 12 months, progress has been made on all 12 of the large projects (defined as sales revenue from \$1 million to \$100 million). The highlight has been the awarding of the \$10 million Pampulha lake treatment to a consortium headed by Phoslock's Brazilian licensee. Work is currently underway with product being shipped to Brazil for the first application in April-May 2016. It is planned that the project will consist of 4 or 5 applications, with several months between each application.

The Company and its licensees are currently working on 48 separate projects (including the 12 large projects) - 17 in Europe/UK; 21 in North & South America; 5 in Asia; and 5 in Australia. The sales pipeline is regularly reviewed by management and the board and only projects with a high likelihood of being undertaken are included in the sales pipeline. The Company's sales pipeline currently includes 21 projects for which the Company believes decisions are expected between now and the end of the year. In several of these projects, a decision to fund the application has already been made and the Company or its licensee is only waiting on the relevant permit to apply from the environmental regulator. The 21 projects involve a total of approx 2,100 tons and have a sales value of in excess of \$7 million.

The manufacturing facility in Sichuan, China, is operating at its current capacity, making Phoslock for current and near term orders.

The key to the Group's growth and development is increasing sales by converting its extensive pipeline into sales. The Company is very optimistic about 2016 and beyond, as Phoslock is used on an increasing number of projects globally.

**DIRECTOR'S REPORT (continued)**

**Auditor's Independence Declaration**

A copy of the auditor's independence declaration in accordance with Section 307C of the *Corporations Act 2001*, for the half year ended 31 December 2015 has been received and can be found on page 5.

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



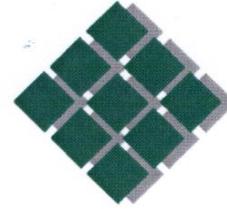
Mr Robert Schuitema  
Managing Director

Dated at Sydney, 25 February 2016

# W. W. Vick & Co.

Chartered Accountants

ABN 14 568 923 714



## Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

### To the directors of Phoslock Water Solutions Limited and Controlled Entities

I declare that, to the best of my knowledge and belief, in relation to the review of the half year ended 31 December 2015, 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.

5th Floor  
379-383 Pitt Street  
Sydney NSW 2000

**W W Vick & Co**  
Chartered Accountants

.....  
Phillip Jones - Partner

Dated: 25 February 2016

Fayworth House, Suite 503, 5<sup>th</sup> Floor, 379-383 Pitt Street, Sydney, NSW 2000  
PO Box 20037, World Square, NSW 2002  
Phone : 02 9266 0881 Fax : 02 9266 0886



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Phoslock Water Solutions Limited and Controlled Entities

A.B.N. 88 099 555 290

INTERIM FINANCIAL REPORT

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE HALF YEAR ENDED 31 DECEMBER 2015

|   | NOTE | Half Year Ended<br>31.12.2015<br>\$ | Half Year Ended<br>31.12.2014<br>\$ |
|---|------|-------------------------------------|-------------------------------------|
| Revenue   | 2    | 580,121                             | 488,704                             |
| Cost of sales   |      | (240,974)                           | (167,935)                           |
| Gross profit  |      | 339,147                             | 320,769                             |
| Other income  | 2    | 122,464                             | -                                   |
| Distribution expenses   |      | (15,711)                            | (14,400)                            |
| Marketing expenses  |      | (106,084)                           | (74,105)                            |
| Occupancy expenses  |      | (49,690)                            | (51,416)                            |
| Administrative expenses   |      | (279,104)                           | (202,570)                           |
| Employee benefit expenses   |      | (501,706)                           | (448,413)                           |
| Depreciation and amortisation   |      | (32,334)                            | (15,591)                            |
| Finance costs   |      | (467,144)                           | (220,185)                           |
| Winding-up expenses   |      | -                                   | (158,228)                           |
| Foreign exchange losses   |      | (94,587)                            | (2,030)                             |
| Options expenses  |      | (25,005)                            | (43,357)                            |
| <b>LOSS BEFORE INCOME TAX</b>   | 3    | (1,109,754)                         | (909,526)                           |
| Income tax expense/ (revenue)   |      | -                                   | -                                   |
| <b>LOSS FOR THE PERIOD</b>  | 3    | (1,109,754)                         | (909,526)                           |
| <b>OTHER COMPREHENSIVE INCOME</b>   |      |                                     |                                     |
| Items that will be reclassified subsequently to profit or loss when conditions are met: |      |                                     |                                     |
| Exchange differences arising on translation of foreign controlled entities              |      |                                     |                                     |
|   |      | 76,523                              | (29,870)                            |
| <b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b>  |      | (1,033,231)                         | (939,396)                           |
| <b>Profit (Loss) for the period attributable to:</b>                                    |      |                                     |                                     |
| - Owners of parent entity   |      | (1,095,904)                         | (849,469)                           |
| - non-controlling interest  |      | (13,850)                            | (60,057)                            |
| Total loss for the period   |      | (1,109,754)                         | (909,526)                           |
| <b>Total comprehensive loss for the period attributable to:</b>                         |      |                                     |                                     |
| - Owners of parent entity   |      | (1,033,231)                         | (939,396)                           |
| - non-controlling interest  |      | -                                   | -                                   |
| Total comprehensive loss for the period   |      | (1,033,231)                         | (939,396)                           |
| <b>Earnings per share</b>   |      |                                     |                                     |
| Basic earnings per share (cents per share)  |      | (0.43)                              | (0.40)                              |
| Diluted earnings per share (cents per share)  |      | (0.43)                              | (0.40)                              |

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 2015**

|                                      | NOTE | 31.12.2015<br>\$   | 30.06.2015<br>\$   |
|--------------------------------------|------|--------------------|--------------------|
| <b>CURRENT ASSETS</b>                |      |                    |                    |
| Cash and cash equivalents            |      | 203,404            | 132,367            |
| Trade and other receivables          |      | 235,415            | 622,559            |
| Inventories                          |      | 19,984             | 140,538            |
| Other assets                         |      | 77,870             | 63,150             |
| <b>TOTAL CURRENT ASSETS</b>          |      | <u>536,673</u>     | <u>958,614</u>     |
| <b>NON-CURRENT ASSETS</b>            |      |                    |                    |
| Plant and equipment                  |      | 75,171             | 106,635            |
| Intangible assets                    |      | -                  | -                  |
| <b>TOTAL NON-CURRENT ASSETS</b>      |      | <u>75,171</u>      | <u>106,635</u>     |
| <b>TOTAL ASSETS</b>                  |      | <u>611,844</u>     | <u>1,065,249</u>   |
| <b>CURRENT LIABILITIES</b>           |      |                    |                    |
| Trade and other payables             |      | 481,690            | 507,540            |
| Other Liability                      | 2    | 289,830            | -                  |
| Financial liabilities                | 4    | 3,669,292          | 3,595,811          |
| Derivative liabilities               | 5    | 26,833             | 227,897            |
| Short term provisions                |      | 351,504            | 323,182            |
| <b>TOTAL CURRENT LIABILITIES</b>     |      | <u>4,819,149</u>   | <u>4,654,430</u>   |
| <b>NON-CURRENT LIABILITIES</b>       |      |                    |                    |
| Long term provisions                 |      | 25,135             | 32,954             |
| <b>TOTAL NON-CURRENT LIABILITIES</b> |      | <u>25,135</u>      | <u>32,954</u>      |
| <b>TOTAL LIABILITIES</b>             |      | <u>4,844,284</u>   | <u>4,687,384</u>   |
| <b>NET ASSETS/(LIABILITIES)</b>      |      | <u>(4,232,440)</u> | <u>(3,622,135)</u> |
| <b>EQUITY</b>                        |      |                    |                    |
| Issued capital                       | 8    | 32,510,192         | 32,112,271         |
| Reserves                             |      | 123,406            | 164,378            |
| Accumulated losses                   |      | (36,613,588)       | (35,660,184)       |
| Owners interest                      |      | (3,979,990)        | (3,383,535)        |
| Non-controlling interest             |      | (252,450)          | (238,600)          |
| <b>TOTAL EQUITY</b>                  |      | <u>(4,232,440)</u> | <u>(3,622,135)</u> |

*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 2015

| Note  | Issued capital<br>\$ | Option<br>Reserve<br>\$ | Foreign<br>currency<br>translation<br>reserves<br>\$ | Non-<br>controlling<br>interest<br>\$ | Accumulated<br>losses<br>\$ | Total<br>\$ |
|---|----------------------|-------------------------|--|---------------------------------------|-----------------------------|-------------|
| <b>Balance at 1 July 2014</b>                               | 31,731,715           | 115,325                 | 490,594  | (305,364)                             | (34,253,628)                | (2,221,358) |
| <b>Total comprehensive income/(loss) for the period</b>     |                      |                         |  |                                       |                             |             |
| Loss for the period   | -                    | -                       | -  | (60,057)                              | (849,469)                   | (909,526)   |
| Other comprehensive income/(loss)                           | -                    | -                       | (13,592)   | (16,278)                              | -                           | (29,870)    |
| <b>Total comprehensive income/(loss) for the period</b>     | -                    | -                       | (13,592)   | (76,335)                              | (849,469)                   | (939,396)   |
| <b>Transactions with owners in their capacity as owners</b> |                      |                         |  |                                       |                             |             |
| Treasury shares sold  | 80,000               |                         |  |                                       |                             | 80,000      |
| Share-based payment   | -                    | 43,357                  | -  | -                                     | -                           | 43,357      |
| Total transactions with owners in their capacity as owners  | 80,000               | 43,357                  | -  | -                                     | -                           | 123,357     |
| <b>Balance at 31 December 2014</b>                          | 31,811,715           | 158,682                 | 477,002  | (381,699)                             | (35,103,097)                | (3,037,397) |
| <b>Balance at 1 July 2015</b>                               | 32,112,271           | 74,408                  | 89,970   | (238,600)                             | (35,660,184)                | (3,622,135) |
| <b>Total comprehensive income/(loss) for the period</b>     |                      |                         |  |                                       |                             |             |
| Loss for the period   | -                    | -                       | -  | (13,850)                              | (1,095,904)                 | (1,109,754) |
| Writeback of Reserves                                       |                      |                         | (142,500)  |                                       | 142,500                     | -           |
| Other comprehensive income                                  | -                    | -                       | 76,523   | -                                     | -                           | 76,523      |
| <b>Total comprehensive income/(loss) for the period</b>     | -                    | -                       | (65,977)   | (13,850)                              | (953,404)                   | (1,033,231) |
| <b>Transactions with owners in their capacity as owners</b> |                      |                         |  |                                       |                             |             |
| Shares issued during the period                             | 397,921              | -                       | -  | -                                     | -                           | 397,921     |
| Share-based payment   | -                    | 25,005                  | -  | -                                     | -                           | 25,005      |
| Transaction costs   | -                    | -                       | -  | -                                     | -                           | -           |
| Total transactions with owners in their capacity as owners  | 397,921              | 25,005                  | -  | -                                     | -                           | 422,926     |
| <b>Balance at 31 December 2015</b>                          | 32,510,192           | 99,413                  | 23,993   | (252,450)                             | (36,613,588)                | (4,232,440) |

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 CASH FLOWS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2015**

| NOTE  | Half Year Ended<br>31.12.2015<br>\$ | Half Year Ended<br>31.12.2014<br>\$ |
|---|-------------------------------------|-------------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |                                     |                                     |
| Receipts from customers and government grants                   | 1,254,705                           | 553,804                             |
| Payments to suppliers and employees                             | (1,306,618)                         | (875,952)                           |
| Interest received   | 997                                 | 1,578                               |
| Finance costs   | (23,529)                            | (110,577)                           |
| <b>NET CASH FROM / (USED IN) OPERATING ACTIVITIES</b>           | <b>(74,445)</b>                     | <b>(431,147)</b>                    |
| <b>CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES</b>         |                                     |                                     |
| Purchase of property, plant and equipment                       | (866)                               | -                                   |
| <b>NET CASH FROM / (USED IN) INVESTING ACTIVITIES</b>           | <b>(866)</b>                        | <b>-</b>                            |
| <b>CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES</b>         |                                     |                                     |
| Proceeds from share issue                                       | 152,000                             | 80,000                              |
| Repayment of borrowings   | (466,425)                           | -                                   |
| Proceeds from borrowings  | 461,424                             | 240,000                             |
| <b>NET CASH FROM / (USED IN) FINANCING ACTIVITIES</b>           | <b>146,999</b>                      | <b>320,000</b>                      |
| Net increase/(decrease) in cash and cash equivalents held       | 71,688                              | (111,147)                           |
| Cash and cash equivalents at the beginning of the period        | 132,367                             | 248,490                             |
| Effect of exchange rates on cash holdings in foreign currencies | (651)                               | 13,206                              |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>       | <b>203,404</b>                      | <b>150,549</b>                      |

*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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF YEAR ENDED 31 DECEMBER 2015

**NOTE 1 BASIS OF PREPARATION**

These general purpose financial statements for the interim half-year reporting period ended 31 December 2015 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standards *AASB 134: Interim Financial Reporting*. The Group is a for-profit entity for financial reporting purposes under the Australian Accounting 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 2015, 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.

**New Accounting Standards and Interpretation**

The Group has considered the implications of new or Amended Accounting Standards but determined that the applications to the financial statements is either not relevant or material.

**NOTE 1 (a) Material Uncertainty Regarding Going Concern**

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

The Group has net current liabilities of \$4,282,476 (30 June 2015: net current liabilities of \$3,695,816) and recorded an operating loss after income tax of \$1,109,754 (31 December 2014: \$909,526) for the half year then ended. The net current liability includes the convertible notes and accrued interest of \$2,344,928 payable to Link Traders (Aust) Pty Ltd, the Group's major shareholder and a company controlled by the Group's Non-executive Chairman and Sail Ahead Pty Ltd, an entity controlled by the Group's Managing Director. The convertible notes have a maturity date of 30 June 2016. The Group has Accumulated Loss of \$36,613,588 (June 2015: \$35,660,184) and a net asset deficiency of \$4,232,440 (30 June 2015: \$3,622,135). At the reporting date the group had cash reserves of \$203,404 (30 June 2015: \$132,367).

The continuing viability of the Group and its ability to continue on a going concern basis and meet its debts and commitments as they fall due is dependent upon the Group converting significant pipeline projects (worth \$1 million or more) into actual sales annually and if required, securing additional funding in the form of equity or convertible equity. In the event that the Group is unable to convert significant pipeline projects into sales receipts and/or is unable to raise additional funds if required, there exists a material uncertainty that may cast doubt on the Group's ability to continue as a going concern and therefore realise its assets or extinguish its liabilities in the ordinary course of business.

The Directors believe it is appropriate to prepare these accounts on a going concern basis because:

- The company has prepared a cash flow forecasts for the 13 month period ending 31 March 2017 which the directors consider that the cash flow forecasts indicate that the Group will have sufficient cash flows to meet all commitments for the 13 month period from the date of signing this half year financial report.
- The Group has a number of project pipelines active around the world, particularly in the emerging markets of Asia and South America. The potential size of both these markets is material in product volume and monetary value. The company and its respective local licensees are currently working on 48 separate projects (including the 12 large projects; projects with a value > A\$1 million) - 17 in Europe/UK; 21 in North & South America; 5 in Asia; and 5 in Australia. The sales pipeline is regularly reviewed by management and the board and only projects with a high likelihood of being undertaken are included in the sales pipeline. The Company's sales pipeline currently includes 21 projects for which the Company believes decisions are expected between now and the end of the year. In several of these projects, a decision to fund the application has already been made and the Company or its licensee is only waiting on the relevant permit to apply from the environmental regulator. The 21 projects involve a total of approx 2,100 tons and have a sales value of in excess of \$7 million.
- The company intends to raise additional funding from the capital or equity market during 2016. A decision regarding the amount, timing, structure of offering and the intended market (existing equity holders, new equity holders (Australian or international) is pending. The Group may also consider the involvement of strategic partners like it did with placement to Chinese partners in December 2015 and January, 2016.

Based on the Group cash flow forecasts and other factors referred to above, the directors are satisfied that the going concern basis of preparation is appropriate.

**Financial Instruments**

The Group's financial instruments consist of cash and cash equivalents, trade and other receivables, refundable security deposits, trade and other payables, related party short-term loan and related party short-term convertible note payable and a unsecured subordinated non-interest bearing loan from Betophos GmbH (which holds a non-controlling interest in Phoslock Europe GmbH, Zug). These financial instruments are measured at amortised cost, less any impairment. The carrying amount of the financial assets and liabilities approximate their fair value.

**NOTE 2 REVENUE**

|  | 31.12.2015     | 31.12.2014     |
|--|----------------|----------------|
|  | \$             | \$             |
| <b>Sales Revenue</b>   |                |                |
| - sale of goods  | 414,765        | 251,223        |
| - provision of services  | 301            | -              |
|  | <u>415,066</u> | <u>251,223</u> |
| <b>Other Revenue</b>   |                |                |
| - interest received  | 993            | 1,578          |
| - export development/r&d grants  | 164,062        | 235,903        |
|  | <u>165,055</u> | <u>237,481</u> |
| Total Revenue  | <u>580,121</u> | <u>488,704</u> |
| Amounts received in advance from Customers                                       | 289,830        | -              |
| Other Income   |                |                |
| - Other income   | 488            | -              |
| - Fair value gain on derivative liability (relates to ASOF Convertible Security) | 121,976        | -              |
| Total other income   | <u>122,464</u> | <u>-</u>       |
| Total Revenue & Other Income   | <u>702,585</u> | <u>488,704</u> |

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**NOTE 3 LOSS FOR THE PERIOD**

Loss for the period includes the following specific items:

|                         |   |           |
|-------------------------|---|-----------|
| Winding-up expenses (a) | - | (158,228) |
|-------------------------|---|-----------|

(a) - Winding-up expenses are mainly regulatory, administrative and employee termination costs associated with the voluntary dissolution of the Group's 71% owned subsidiary in China, IETC Environmental Protection Technology (Kunming) Ltd.

|                                  |           |           |
|----------------------------------|-----------|-----------|
| <b>Employee benefit expenses</b> | (501,706) | (448,413) |
|----------------------------------|-----------|-----------|

Employee benefit expenses include salaries to employees, director fees, superannuation, annual and long service leave costs for the period, cost of any options or shares issued to employees, fringe benefit taxes and workers compensation.

**Finance costs**

|   |                  |                  |
|---|------------------|------------------|
| - Convertible Notes issued to third party- amortised interest expense | (223,671)        | -                |
| - Convertible Notes issued to related parties                         | (155,014)        | (106,315)        |
| - loans provided by related parties                                   | (83,305)         | (113,322)        |
| - other interest & fees   | (5,154)          | (548)            |
| <b>Total Finance Cost</b>   | <b>(467,144)</b> | <b>(220,185)</b> |

Finance costs include all interest, derivative, option and upfront expenses for loans, convertible notes and factoring of trade receivables, and bank charges.

In March 2015, the Group issued a convertible security to the Australian Special Opportunity Fund (ASOF) raising \$1 million before fees and expenses.

Under the terms of the transaction, the Group paid a \$50,000 fee, issued 4.5 million 7.3 cent March 2017 Options and 4 million collateral shares.

In November 2015, the ASOF purchased the 4 million collateral shares and paid the Group \$92,000.

Repayments under the ASOF convertible security are 15 monthly payments of \$76,667 which can be made in either cash or shares, at the Group's option.

As at 31 December, 2015 eight monthly repayments had been made, the first five by issuance of shares and the last three by payment of cash.

As at 31 December, 2015 seven repayments of \$76,667 totalling \$536,669 were outstanding.

The January 2016 and February 2016 monthly repayments have been made by payment of cash. The outstanding balance as at the date of this report is \$383,335.

**NOTE 4 FINANCIAL LIABILITIES**

|  | <b>31.12.2015</b> | <b>30.06.2015</b> |
|--|-------------------|-------------------|
|  | <b>\$</b>         | <b>\$</b>         |
| Short term loans - related party   | 898,556           | 673,556           |
| Convertible notes due 30 June 2016 - related parties                       | 2,050,000         | 2,050,000         |
| Convertible security maturing 30 June 2016 - ASOF                          | 426,307           | 585,969           |
| Subordinated shareholder loan repayable by Phoslock Europe - related party | 294,429           | 286,286           |
|  | <b>3,669,292</b>  | <b>3,595,811</b>  |

**NOTE 5 DERIVATIVE LIABILITIES**

|                      |          |        |         |
|----------------------|----------|--------|---------|
| Derivative liability | <b>A</b> | 26,833 | 227,897 |
|----------------------|----------|--------|---------|

**A**

A Convertible Note was issued to ASOF on 20 March, 2015. The Convertible Notes are repayable through 15 monthly repayments of \$76,667. The Company has the option to make the monthly repayments in either cash or shares. If the repayments are in shares, the pricing formula is based on 90% of the five lowest VWAP's (volume weighted average price) for the month. As at 31 December, 2015, the Company had made 7 repayments totalling \$536,669 with 8 repayments totalling \$613,336 outstanding. 4 million collateral shares are issued as security. The financial liability is carried at amortised cost and the embedded derivatives liabilities are carried at fair value. The effective interest rate is used to calculate the interest expense of \$233,671 (Note 3).

**NOTE 6 FAIR VALUE MEASUREMENT**

The Group measures and recognises derivative financial instruments at fair value on a recurring basis after the initial recognition.

AASB 13 Fair Value Measurement requires all assets and liabilities measured at fair value to be assigned to a level in the fair value hierarchy as follows:

|         |  |
|---------|--|
| Level 1 | Measurements based on unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.     |
| Level 2 | Measurements based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. |
| Level 3 | Measurements based on unobservable inputs for the asset or liability.  |

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2.

If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

**Valuation Techniques**

The Group selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value.

The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured.

The valuation techniques selected by the Group are consistent with one or more of the following valuation approaches:

- Market approach: valuation technique that use prices and other relevant information generated by market transactions for identical or similar assets or liabilities.
- Income approach: valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.
- Cost approach: valuation technique that reflect the current replacement cost of an asset and its current service capacity.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks.

When selecting a valuation technique, the Group gives priority to those techniques that maximise the use of observable inputs and minimises the use of unobservable inputs.

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Inputs that are developed using market data and reflect the assumptions that buyers and sellers would generally use when pricing the assets or liability are considered observable.

Whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

The following tables provide the fair values of the Group's assets and liabilities measured and recognised on a recurring basis and initial recognition and the categorisation within the fair value hierarchy.

|  | Note | 31 December 2015 |         |         | Total  | 30 June 2015 |
|--|------|------------------|---------|---------|--------|--------------|
|  |      | Level 1          | Level 2 | Level 3 |        |              |
|  |      | \$               | \$      | \$      | \$     | \$           |
| <b>Recurring Fair Value Measurements</b> |      |                  |         |         |        |              |
| Derivative liability                     | 5    |                  | 26,833  |         | 26,833 | 227,897      |

**Valuation Techniques and Inputs used to Measure Level 2 Fair Values**

| Description | Fair Value<br>31 Dec 2015<br>\$ | Valuation Techniques | Inputs Used |
|-------------|---------------------------------|----------------------|-------------|
|             |                                 |                      |             |

There were no transfers between levels during the financial year.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to the short-term nature.

The Group has no assets that are measured at fair value (2014: Nil).

**NOTE 7 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, Asia and South America. 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, Americas 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.

*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:

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

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INTERIM FINANCIAL REPORT

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(i) Segment performance

|   | Australia/NZ     | Europe/UK       | N&S America    | Asia     | Total            | Eliminations    | Total              |
|---|------------------|-----------------|----------------|----------|------------------|-----------------|--------------------|
| <b>Six months ended 31 December 2015</b>                                      |                  |                 |                |          |                  |                 |                    |
| <b>Revenue</b>  |                  |                 |                |          |                  |                 |                    |
| External sales  | 166,424          | 12,937          | 235,705        | -        | 415,066          | -               | 415,066            |
| Inter-segment sales   |                  | 13,012          |                | -        | 13,012           | (13,012)        | -                  |
| Other revenue   | 286,526          | -               |                |          | 286,526          | -               | 286,526            |
| <b>Total segment revenue</b>  | <b>452,950</b>   | <b>25,949</b>   | <b>235,705</b> | <b>-</b> | <b>714,604</b>   | <b>(13,012)</b> | <b>701,592</b>     |
| <i>Reconciliation of segment revenue to group revenue</i>                     |                  |                 |                |          |                  |                 |                    |
| Unallocated interest income   |                  |                 |                |          |                  |                 | 993                |
| Total group revenue   |                  |                 |                |          |                  |                 | <u>702,585</u>     |
| <b>Segment loss before tax</b>  | <b>(205,493)</b> | <b>(44,594)</b> | <b>25,000</b>  | <b>-</b> | <b>(225,087)</b> | <b>-</b>        | <b>(225,087)</b>   |
| <i>Reconciliation of segment result to group net profit/(loss) before tax</i> |                  |                 |                |          |                  |                 |                    |
| Amounts not included in segment result but reviewed by the Board              |                  |                 |                |          |                  |                 |                    |
| - Depreciation and amortisation   | (32,334)         |                 |                | -        | (32,334)         | -               | (32,334)           |
| Unallocated items:  |                  |                 |                |          |                  |                 |                    |
| - Corporate charges   |                  |                 |                |          |                  |                 | (385,188)          |
| - Finance costs   |                  |                 |                |          |                  |                 | (467,144)          |
| Loss before income tax from continuing operations                             |                  |                 |                |          |                  |                 | <u>(1,109,754)</u> |

**Six months ended 31 December 2014**

|   |                  |                 |                 |                  |                  |                 |                  |
|---|------------------|-----------------|-----------------|------------------|------------------|-----------------|------------------|
| <b>Revenue</b>  |                  |                 |                 |                  |                  |                 |                  |
| External sales  | 128,903          | 29,627          | 92,693          |                  | 251,223          | -               | 251,223          |
| Inter-segment sales                                       |                  | 14,617          |                 |                  | 14,617           | (14,617)        | -                |
| Other revenue   | 235,903          | -               |                 |                  | 235,903          | -               | 235,903          |
| <b>Total segment revenue</b>                              | <b>364,806</b>   | <b>44,244</b>   | <b>92,693</b>   | <b>-</b>         | <b>501,743</b>   | <b>(14,617)</b> | <b>487,126</b>   |
| <i>Reconciliation of segment revenue to group revenue</i> |                  |                 |                 |                  |                  |                 |                  |
| Unallocated interest income                               |                  |                 |                 |                  |                  |                 | 1,578            |
| Total group revenue                                       |                  |                 |                 |                  |                  |                 | <u>488,704</u>   |
| <b>Segment loss before tax</b>                            | <b>(186,065)</b> | <b>(46,173)</b> | <b>(12,848)</b> | <b>(158,228)</b> | <b>(403,314)</b> | <b>-</b>        | <b>(403,314)</b> |
| <i>profit/(loss) before tax</i>                           |                  |                 |                 |                  |                  |                 |                  |
| Amounts not included in segment result but                |                  |                 |                 |                  |                  |                 |                  |
| - Depreciation and amortisation                           | (15,591)         |                 |                 |                  | (15,591)         | -               | (15,591)         |
| Unallocated items:  |                  |                 |                 |                  |                  |                 |                  |
| - Corporate charges                                       |                  |                 |                 |                  |                  |                 | (270,436)        |
| - Finance costs   |                  |                 |                 |                  |                  |                 | (220,185)        |
| Loss before income tax from continuing operations         |                  |                 |                 |                  |                  |                 | <u>(909,526)</u> |

|                                  | Australia/NZ     | Europe/UK        | N&S America | Asia     | Total            | Eliminations     | Total            |
|----------------------------------|------------------|------------------|-------------|----------|------------------|------------------|------------------|
| <b>(ii) Segment assets</b>       |                  |                  |             |          |                  |                  |                  |
| <b>31 December 2015</b>          |                  |                  |             |          |                  |                  |                  |
| <b>Segment assets</b>            | <b>1,371,024</b> | <b>106,728</b>   | <b>-</b>    | <b>-</b> | <b>1,477,752</b> | <b>(852,875)</b> | <b>624,877</b>   |
| Unallocated assets - intangibles |                  |                  |             |          |                  |                  | -                |
| <b>Total group assets</b>        |                  |                  |             |          |                  |                  | <u>624,877</u>   |
| <b>30 June 2015</b>              |                  |                  |             |          |                  |                  |                  |
| <b>Segment assets</b>            | <b>1,800,947</b> | <b>183,066</b>   | <b>-</b>    | <b>-</b> | <b>1,984,013</b> | <b>(918,762)</b> | <b>1,065,251</b> |
| Unallocated assets - intangibles |                  |                  |             |          |                  |                  | -                |
| <b>Total group assets</b>        |                  |                  |             |          |                  |                  | <u>1,065,251</u> |
| <b>(iii) Segment liabilities</b> |                  |                  |             |          |                  |                  |                  |
| <b>31 December 2015</b>          |                  |                  |             |          |                  |                  |                  |
| <b>Segment liabilities</b>       | <b>4,546,767</b> | <b>1,250,308</b> | <b>-</b>    | <b>0</b> | <b>5,797,075</b> | <b>(952,877)</b> | <b>4,844,198</b> |
| Unallocated liabilities          |                  |                  |             |          |                  |                  | -                |
| <b>Total group liabilities</b>   |                  |                  |             |          |                  |                  | <u>4,844,198</u> |
| <b>30 June 2015</b>              |                  |                  |             |          |                  |                  |                  |
| <b>Segment liabilities</b>       | <b>4,407,411</b> | <b>1,185,699</b> | <b>-</b>    | <b>-</b> | <b>5,593,110</b> | <b>(905,726)</b> | <b>4,687,384</b> |
| Unallocated liabilities          |                  |                  |             |          |                  |                  | -                |
| <b>Total group liabilities</b>   |                  |                  |             |          |                  |                  | <u>4,687,384</u> |

(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 34% of external revenue (2014:36%)

Phoslock Water Solutions Limited and Controlled Entities

A.B.N. 88 099 555 290

INTERIM FINANCIAL REPORT

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NOTE 8 SHARE CAPITAL

|   | 31.12.2015  |            | 30.06.2015  |            |
|---|-------------|------------|-------------|------------|
|   | No.         | \$         | No.         | \$         |
| At the beginning of the period                                    | 250,851,616 | 32,112,271 | 237,566,732 | 31,731,715 |
| Contributions and distributions during the period                 |             |            |             |            |
| - Sale of Treasury stock  | -           | -          | 2,000,000   | 92,000     |
| - Shares issued to Chinese Strategic Partner                      | 1,500,000   | 60,000     |             |            |
| - Shares issued to consultant                                     | 1,000,000   | 25,000     |             |            |
| - Shares issued for Lind Convertible Security repayments          | 6,984,125   | 312,921    | 7,284,884   | 288,556    |
| - Purchase of Collateral shares issued under Convertible Security | -           | -          | 4,000,000   | -          |
| Balance at the end of the period                                  | 260,335,741 | 32,510,192 | 250,851,616 | 32,112,271 |

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 9 COMMITMENTS AND CONTINGENT LIABILITIES

The Group has non-cancellable operating lease commitment expiring on 30 September, 2016 with future rental payments of \$66,985 (30 June 2015 \$110,565). There has been no significant contingent liabilities since the last annual reporting date to 31 December, 2015.

NOTE 10 EVENTS SUBSEQUENT TO THE REPORTING DATE

The Group received \$340,000 from a Strategic Chinese investor on 15 January, 2016. 8.5 million fully paid shares were issued. The transaction was announced on 21 December, 2015.

Phoslock (Shanghai) Water Solutions Ltd was registered on 27 January, 2016. A 100% owned subsidiary and sales office has been established in Shanghai.

NOTE 11 DIVIDENDS PAID OR PAYABLE

No dividends have been paid or declared during the period (2014: \$nil).

NOTE 12 RELATED PARTY TRANSACTIONS

|   | 31.12.2015 | 31.12.2014 |
|---|------------|------------|
|   | \$         | \$         |
|   | 6 months   | 6 months   |
| Transaction with related parties:   |            |            |
| <b>(a) Relatives of Specified Executives</b>  |            |            |
| Services provided on a normal commercial basis by parties related to specified executives                       |            |            |
| Margaret Schuitema – part time employment (1))  | 22,000     | 30,000     |
| Yolanda Winks – part time employment (2)  | 15,000     | 15,000     |
| Ben Schuitema – part time employment (1)  | 14,460     | 9,000      |
| Martin Schuitema – part time employment (1)   | 9,900      | 11,250     |
| <b>(b) Transactions with related parties</b>  |            |            |
| Link Traders (Aust) Pty Ltd – rental costs for Sydney Office (3)  | 45,688     | 45,370     |
| Link Traders (Aust) Pty Ltd – interest on loans (3) (7)   | 219,215    | 217,514    |
| Sail Ahead Pty Ltd – interest on loans (4) (8)  | 18,904     | 2,671      |
| Wentworth Place Group Ltd - investor relations (9)  | 25,000     | -          |
| Contribution to self-managed superannuation funds managed by related parties (1) (3)                            | 36,188     | 29,799     |
| <b>(c) Transactions with other related parties</b>  |            |            |
| Bentophos GmbH - purchase of goods & services   | -          | -          |
| Bentophos GmbH - subordinated loan payments to Phoslock Europe GmbH   | -          | -          |
| Bentophos GmbH is a major business partner and currently holds 40% interest in subsidiary Phoslock Europe GmbH. |            |            |

|   | 31.12.2015 | 30.06.2015 |
|---|------------|------------|
|   | \$         | \$         |
| <b>(d) Balances with related parties</b>  |            |            |
| Robert Schuitema - loan from Phoslock Pty Ltd to purchase Convertible Notes or PHK shares (5) | -          | 28,500     |
| Link Traders (Aust) Pty Ltd – Convertible Notes (3) (6)                                       | 1,800,000  | 1,800,000  |
| Sail Ahead Pty Ltd – Convertible Notes (4) (6)  | 250,000    | 250,000    |
| Link Traders (Aust) Pty Ltd – loan to Phoslock Pty Ltd (3)                                    | 898,556    | 673,556    |
| Bentophos GmbH - subordinated loan to Phoslock Europe GmbH                                    | 294,429    | 286,285    |
| Link Traders (Aust) Pty Ltd - interest on loans and Con Notes accrued but not paid (3)        | 272,942    | 62,265     |
| Sail Ahead Pty Ltd – interest on loans and Con Notes accrued but not paid (4)                 | 21,986     | 3,082      |
| Nigel Traill - salary deferred and not paid   | 68,997     | 61,997     |

(1) related party of Robert Schuitema

(2) related party of Andrew Winks

(3) Laurence Freedman is a director of this company

(4) Robert Schuitema is a director of this company

(5) loans granted at 2014 AGM for the acquisition of 90 \$1,000 Phoslock Convertible Notes. Loan to be fully repaid by 30 October 2015; interest rates - 0%

(6) Convertible Notes issued by Phoslock Water Solutions Ltd convertible/ repayable by 30 June, 2016; interest rate – 15%

(7) interest paid on loans, debt factoring to Phoslock Pty Ltd (interest rate 20%) and Convertible Notes to Phoslock Water Solutions Ltd (interest rate 15%)

(8) interest paid on loans for Convertible Notes to Phoslock Water Solutions Ltd (interest rate 15%)

(9) related party by of Laurence Freedman



**Phoslock Water Solutions Limited and Controlled Entities**

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**DIRECTOR'S DECLARATION**

The Directors of Phoslock Water Solutions Limited and Controlled Entities declare that:

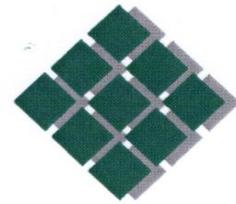
- 1 The financial statements and notes set out on pages 6 to 14 are in accordance with the *Corporations Act 2001*; including:
  - (a) complying with Australian Accounting Standard *AASB 134: Interim Financial Reporting and the Corporations Regulations 2001*; and
  - (b) giving a true and fair view of the Group's financial position as at 31 December 2015 and its performance for the half-year period
- 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

This declaration is made in accordance with a resolution of the Board of Directors of Phoslock Water Solutions Limited and Controlled Entities.

On behalf of the directors

Robert Schuitema  
Director

Dated this 25th day of February 2016



**INDEPENDENT AUDITOR'S REVIEW REPORT**

**TO THE MEMBERS OF PHOSLOCK WATER SOLUTIONS LIMITED AND CONTROLLED ENTITIES**

**Report on the Financial Report**

We have reviewed the accompanying half year financial report of Phoslock Water Solutions Limited (the "Group"), which comprises the consolidated condensed statement of financial position as at 31 December 2015, the consolidated condensed statement of profit or loss and other comprehensive income, consolidated condensed statement of changes in equity and consolidated condensed statement of cash flows for the half year ended on that date, notes 1 to 12 comprising a summary of significant accounting policies and other explanatory notes and the directors' declaration for Phoslock Water Solutions Limited, comprising of the company and the entities it controlled at the half year's end or from time to time during the half financial year.

**Directors' Responsibility for the Half Year Financial Report**

The directors of the Group 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 of the half year financial report that is free from material misstatement, whether due to fraud or error.

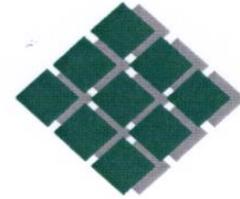
**Auditor's Responsibility**

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 Group's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 Interim financial Reporting and the Corporations Regulations 2001. As auditor of Phoslock Water Solutions Ltd, 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:

- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half year ended on that date; and
- (ii) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001* .

## Emphasis of Matter

### Material uncertainty regarding continuation as a going concern

Without modifying our conclusion, we draw attention to Note 1(a) in the financial report which indicates that the consolidated entity incurred a net loss of \$1,109,754 during the half year ended 31 December 2015, has accumulated losses totalling \$36,613,588, a net current liability position of \$4,282,476 and net cash used in operating activities of \$74,445 as at 31 December 2015. These conditions, along with other matters disclosed in Note 1(a), indicates 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.

5th Floor  
379-383 Pitt Street  
Sydney NSW 2000

**W W Vick & Co**  
Chartered Accountants

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Phillip Jones - Partner

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Fayworth House, Suite 503, 5<sup>th</sup> Floor, 379-383 Pitt Street, Sydney, NSW 2000  
PO Box 20037, World Square, NSW 2002  
Phone : 02 9266 0881 Fax : 02 9266 0886



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