

PHOSLOCK WATER SOLUTIONS LTD

(ABN 88 099 555 290)

Appendix 4D

Half year report

Period Ending 31 December 2006

The following information constitutes the half year report required under Listing Rule 4.2A and should be read in conjunction with the annual financial report for the period ended 30 June 2006.

Results for announcement to the market:

Revenues from ordinary activities	up	33%	to	<u>\$A'000</u> 529
Profit (loss) from ordinary activities after tax attributable to members	up	33%	to	(2,172)
Net profit (loss) for the period attributable to members	up	33%	to	(2,172)

The company does not propose to pay any dividends for the half year ended 31 December 2006

**PHOSLOCK WATER SOLUTIONS LIMITED
and CONTROLLED ENTITIES
ABN 88 099 555 290
CONSOLIDATED FINANCIAL REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006**

**PHOSLOCK WATER SOLUTIONS LIMITED
and CONTROLLED ENTITIES
ABN 88 099 555 290
CONSOLIDATED FINANCIAL REPORT**

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**PHOSLOCK WATER SOLUTIONS LTD
and CONTROLLED ENTITIES
ABN 88 099 555 290**

DIRECTORS' REPORT

Your directors submit the financial report of the economic entity for the half-year ended 31 December 2006.

Directors

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

Robert Schuitema
Dr David Garman
Russell Brown
Brett Crowley (Resigned 9 January 2007)

Operating Results

The consolidated loss of the economic entity for the half year after providing for income tax was \$(2,172,304).

Review of Operations

Total revenues of \$529,539 increased 33% on the previous half year reflecting the growth in sales of Phoslock products . Weather driven delays in two major projects have reduced reported sales for the half year. The loss before interest, tax, depreciation and amortisation of \$2,172,304 is up 33% on the loss recorded in the previous half year . The increased loss largely reflects the significant additional investment in global marketing and technical support resources. This investment is expected to generate a significant increase in revenues over the 2007 calendar year and beyond.

Auditor's Independence Declaration

The lead auditor's independence declaration under Section 307C of the Corporations Act is set out on page 2 and forms part of the Directors' report for the half year ended 31 December 2006.

Signed in accordance with a resolution of the Board of Directors on February 26 2007.



Robert Schuitema
Managing Director

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

I declare that, to the best of my knowledge and belief, in relation to our review of Phoslock Water Solutions Limited for the half year ended 31 December 2006 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001; and
- (ii) no contraventions of any applicable code of professional conduct.



WILLIAM BUCK
Chartered Accountants

Brisbane, 26 February 2007



D W LANGDON
Lead Audit Partner

Level 16, William Buck Centre, 120 Edward Street, Brisbane QLD 4000 • GPO Box 736, Brisbane QLD 4001

T (61 7) 3233 3555 F (61 7) 3210 6183 E info@williambuckqld.com.au W www.williambuck.com.au

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**PHOSLOCK WATER SOLUTIONS LTD
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**INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006**

	ECONOMIC ENTITY	
	31 DECEMBER 2006 \$	31 DECEMBER 2005 \$
Revenues from ordinary activities		
- Sales	505,721	360,895
- Interest received	23,793	17,008
- Other revenues - Royalties	25	18,451
Total operating revenue	529,539	396,354
Cost of sales	(277,186)	(220,736)
Administrative expenses	(806,231)	(448,235)
Depreciation and amortisation	(217,544)	(236,611)
Manpower expenses	(842,999)	(707,499)
Marketing expenses	(446,189)	(54,658)
Occupancy expenses	(127,293)	(81,962)
Profit on sale of current assets	2,926	
Other expenses from ordinary activities	(12,462)	(277,059)
Profit/(loss) from ordinary activities before income tax	(2,197,439)	(1,630,406)
Income tax relating to ordinary activities	-	-
Loss from ordinary activities after related income tax expense	(2,197,439)	(1,630,406)
Net Loss attributable to outside equity interests	25,135	826
Net profit/(loss) attributable to members of the parent entity	(2,172,304)	(1,629,580)
Total changes in equity other than those resulting from transactions	(2,172,304)	(1,629,580)
Basic earnings per share (cents per share)	(1.90)	(1.50)
Diluted earnings per share (cents per share)	(1.90)	(1.50)
NTA per share (cents per share)	3.58	4.64

The accompanying notes form part of this financial report.

**PHOSLOCK WATER SOLUTIONS LTD
and CONTROLLED ENTITIES
ABN 88 099 555 290**

**BALANCE SHEET
AS AT 31 DECEMBER 2006**

	ECONOMIC ENTITY	
	31 DECEMBER	30 JUNE
	2006	2006
	\$	\$
CURRENT ASSETS		
Cash and cash equivalents	3,018,624	2,077,697
Trade and other receivables	692,801	985,149
Inventories	1,017,211	960,127
Other current assets	64,062	55,862
TOTAL CURRENT ASSETS	4,792,698	4,078,835
NON-CURRENT ASSETS		
Trade and other receivables	400,000	400,000
Property, plant, and equipment	868,129	903,002
Intangible assets	3,556,754	3,590,862
TOTAL NON-CURRENT ASSETS	4,824,883	4,893,864
TOTAL ASSETS	9,617,581	8,972,699
CURRENT LIABILITIES		
Trade and other payables	740,792	866,665
Short term provisions	144,494	132,373
TOTAL CURRENT LIABILITIES	885,286	999,038
NON-CURRENT LIABILITIES		
Other long term provisions	40,418	32,057
TOTAL NON-CURRENT LIABILITIES	40,418	32,057
TOTAL LIABILITIES	925,704	1,031,095
NET ASSETS	8,691,877	7,941,604
EQUITY		
Issued capital	23,501,661	20,572,379
Reserves	770,396	745,652
Accumulated losses	(15,739,888)	(13,567,584)
Parent Entity Interest	8,532,169	7,750,447
Outside Equity Interest	159,708	191,157
TOTAL EQUITY	8,691,877	7,941,604

The accompanying notes form part of this financial report.

**PHOSLOCK WATER SOLUTIONS LTD
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**STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006**

	\$ Share Capital	\$ Retained Losses	\$ Exchange Reserve	\$ Options Reserve	\$ Minority Interests	\$ Total
Balance at 1.7.2005	16,773,215	(9,625,828)	(5,369)	-	178,698	7,320,716
Shares issued during the year	2,595,289	-	-	-	-	2,595,289
Profit attributable to members of the parent entity	-	(1,629,580)	-	-	0	(1,629,580)
Profit attributable to minority shareholders	-	-	-	-	(826)	(826)
Change in Reserves	-	-	7,410	151,871	15,612	174,893
Balance at 31.12.2005	<u>19,368,504</u>	<u>(11,255,408)</u>	<u>2,041</u>	<u>151,871</u>	<u>193,484</u>	<u>8,460,492</u>
Balance at 1.7.2006	20,572,379	(13,567,584)	13,088	732,564	191,157	7,941,604
Shares issued during the year	2,929,282	-	-	-	-	2,929,282
Profit attributable to members of the parent entity	-	(2,172,304)	-	-	0	(2,172,304)
Profit attributable to minority shareholders	-	-	-	-	(25,135)	(25,135)
Change in Reserves	-	-	(19,596)	44,340	(6,314)	18,430
Balance at 31.12.2006	<u>23,501,661</u>	<u>(15,739,888)</u>	<u>(6,508)</u>	<u>776,904</u>	<u>159,708</u>	<u>8,691,877</u>

The accompanying notes form part of this financial report.

**PHOSLOCK WATER SOLUTIONS LTD
and CONTROLLED ENTITIES
ABN 88 099 555 290**

**CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006**

	ECONOMIC ENTITY	
	31 DECEMBER 2006	31 DECEMBER 2005
	Inflows (Outflows)	Inflows (Outflows)
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	425,281	234,315
Payments to suppliers and employees	(2,534,661)	(1,739,857)
Interest received	24,335	16,870
Tax (payments)/receipts	(11,291)	-
Other income	21,681	22,890
Net Cash from Operating Activities	(2,074,655)	(1,465,782)
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Payments for property, plant & equipment	(221,617)	(142,745)
Payments for intellectual property	(88,366)	(537,978)
Payments for investments	-	(100,000)
Payments for sale of assets	400,000	-
Cash acquired on gain of control of subsidiary	-	49,287
Net Cash from Investing Activities	90,017	(731,436)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from share issues	3,057,500	1,330,000
Payment of listing costs	(126,960)	(73,150)
Net Cash from Finance Activities	2,930,540	1,256,850
Net Increase (Decrease) in Cash Held	945,902	(940,368)
Cash at Beginning of the Financial Period	2,077,697	1,631,192
Exchange rate adjustments	(4,975)	22,518
Cash at the End of the Financial Period	3,018,624	713,342

The accompanying notes form part of this financial report.

**PHOSLOCK WATER SOLUTIONS LTD
and CONTROLLED ENTITIES
ABN 88 099 555 290**

**NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006**

NOTE 1 - BASIS OF PREPARATION

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standard AASB 134: Interim Financial Reporting and AASB Interpretations.

The consolidated interim financial report does not include full disclosures of the type normally included in an annual financial report. It is recommended that the interim financial report be read in conjunction with the annual financial report for the ye

The accounting policies and methods of computation adopted are consistent with those of the previous financial year and corresponding interim reporting period.

The consolidated interim financial report was authorised for issue by the directors on 26 February 2007.

NOTE 2 - PROFIT FROM ORDINARY ACTIVITIES

The following items are relevant in explaining the financial performance for the interim period.

Included in other expenses is an impairment loss of \$267,696 relating to the Purezza Marketing Inc US investment which has been written down to its recoverable amount.

Included in Manpower expenses is the cost of options issued in the half year to December 2005. The options were valued on the same basis as those reported in the 2005 annual report.

ECONOMIC ENTITY	
31 DECEMBER 2006	31 DECEMBER 2005
\$	\$
	(267,696)
	(151,871)

NOTE 3 - SEGMENT INFORMATION

Primary Reporting - Business segments

	Environmental Technologies		\$	Bentonite Mining		Economic Entity	
	2006	2005		2006	2005	2006	2005
	\$	\$		\$	\$	\$	\$
Segment Revenue	505,721	356,095		25	23,251	505,746	379,346
Unallocated revenues	-	-		-	-	23,793	17,008
Total operating revenues	505,721	356,095		25	23,251	529,539	396,354
Segment Result	(1,800,838)	(1,184,058)		(3,747)	(152,830)	(1,804,585)	(1,336,888)
Unallocated expenses						(392,854)	(293,518)
Profit from ordinary activities before income tax						(2,197,439)	(1,630,406)

NOTE 4 - ISSUED CAPITAL

On the 19th December 2006 the Company issued 12,800,000 ordinary shares at \$0.23 to raise \$2,944,000 in additionl working capital.

On the 14th December 2006 the Company issued 500,000 ordinary shares at \$0.227 to raise \$113,500 by way of exercise of employee options.

NOTE 5 - CONTINGENT LIABILITIES

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

NOTE 6 - EVENTS SUBSEQUENT TO REPORTING DATE

There have been no events subsequent to reporting date which have had a material effect on the financial position of the company.

**PHOSLOCK WATER SOLUTIONS LTD
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DIRECTORS' DECLARATION

The directors of the company declare that:

- (a) the financial statements and notes set out on pages 3 to 7:
 - (i) comply with Accounting Standard AASB 134 : Interim Financial Reporting and the Corporations Regulations 2001; and
 - (ii) give a true and fair view of the financial position of the economic entity's financial position as at 31 December 2006 and its performance, as represented by the results of its operations and its cash flows, for the half-year ended on that date; and
- (b) 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.

Signed in accordance with a resolution of the Board of Directors on 26 February 2007.

A handwritten signature in black ink, appearing to read 'R. Schuitema', with a large, stylized flourish at the end.

Robert Schuitema
Managing Director

INDEPENDENT REVIEW REPORT

To the members of the 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, which comprises the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the half-year ended on that date, accompanying notes to the consolidated financial statements and the directors' declarations.

Directors' Responsibility for the half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the company's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Phoslock Water Solutions Limited, ASRE2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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 is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the company's financial position as at 31 December 2006 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.

Signed at Brisbane, 26 February 2007



WILLIAM BUCK
Chartered Accountants



D W LANGDON
Partner

Level 16, William Buck Centre, 120 Edward Street, Brisbane QLD 4000 • GPO Box 736, Brisbane QLD 4001
T (61 7) 3233 3555 F (61 7) 3210 6183 E info@willfambuckqld.com.au W www.willfambuck.com.au

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