

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 2013

Previous Corresponding Reporting Period: 31 December, 2012

Results for Announcement to the Market:			A\$'000
Revenue from Ordinary Activities	down	11% to	652
Earnings before depreciation, tax and interest (EBITDA)	improvement	20% to	-694
Profit (loss) from ordinary activities after tax attributable to members (NPAT)	improvement	19% to	-830
Net Profit (loss) for the period attributable to members	improvement	17% to	-824

The company does not propose to pay any dividends for the six months ended 31 December, 2013.

NTA Backing:

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

- 31 December, 2013	(0.67)
- 30 June, 2013	(0.31)

Commentary on Results:

Detailed commentary on results contained in attached Interim Financial Statements



(Company Secretary)
Robert Schuitema

Dated: 27 February, 2014



**Phoslock Water Solutions Limited and Controlled
Entities
A.B.N. 88 099 555 290
INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2013**

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Phoslock Water Solutions Limited and Controlled Entities

A.B.N. 88 099 555 290

Interim Financial Report

DIRECTOR'S REPORT

Your directors present their report on the Company and its controlled entities ("the Group") for the half year ended 31 December 2013.

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 \$652,274 represent an 11% 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 ongoing research and development. Revenues were affected by a number of near term orders being delayed from October-December 2013 to the first half of 2014. Sales orders received from 1 January 2014 to the date of this report are approximately \$400,000.

Operating expenses (excluding depreciation and amortisation, finance, impairment of receivables) for the 6 months decreased by 13% to \$1,135,772 (2012:\$1,299,980). This was attributable to all expenses categories (except occupancy) lower; in particular lower employee costs, marketing costs (Asia and Europe) and distribution expenses. Occupancy expenses was marginally higher due to one off costs with changing Head Office premises, however annual cost of new premises is significantly lower than previous premises. The loss for the 6 months of the consolidated entity after providing for non-controlling interests amounted to \$829,896 (2012: (\$956,372)).

Earnings before depreciation and amortisation, tax and interest and impairment losses (EBITDA) for the 6 months was (\$693,717) which 20% lower than the previous period (FY2012: \$859,904).

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 FY13-14 were delayed to later in the year due to one of two reasons – approvals and/or finalising funding. During the second half of FY13-14 the Company focused on its key markets of Australia, Europe and United Kingdom, North America as well as several large projects in Asia and South America.

Sales from the European/UK region were lower than previous periods however several orders totalling over \$260,000 have been secured in early 2014 for application over the next month. 47 lake projects have been completed since early 2007 in Europe/UK. 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. Sales to 31 December 2013 were in line with the original sales forecasts. The company has undertake several projects in Canada in 2013 and have orders for two projects in the first half of 2014, with several other projects expected.

The company continues to work on major projects in Asia and South America. The potential size of both these projects is material in both volume and product and monetary value. The company and its licensees, are currently working on 52 separate projects in our key markets -18 projects totalling 2,000 tons that are either orders awaiting application or budget has been allocated for the project and Phoslock is the preferred solution. In addition there are 10 other projects > \$1 million; 24 projects in the pipeline with a project value \$20,000 to \$1 million.

IETC, the manufacturing joint venture in China (71% owned by PWS) finished in December, 2013 in accordance with the 10 year agreement. The plant was dismantled and the equipment was sold prior to 31 December, 2013. A new manufacturing facility has been established in Sichuan, China, at the premises of a key raw material supplier. It is anticipated that production costs will reduce at this plant. Transportation costs of raw material delivered to the plant and finished goods from the plant to overseas markets will reduce significantly as the raw material suppliers are located close to the new plant and a export port located nearby.

The key to the Group's growth and development is increasing sales by converting its extensive pipeline into sales.

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 2013 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, 27 February 2014

W. W. Vick & Co.

Chartered Accountants

ABN 14 568 923 714



To the Board of Directors of Phoslock Water Solutions Limited

Auditors Independence Declaration under Section 307C of the Corporations Act 2001

I declare that, to the best of my knowledge and belief, for the half-year ended 31 December 2013, 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

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Phillip Jones - Partner

Dated: 27th February, 2014

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 2013

	NOTE	31.12.2013	31.12.2012
		\$	\$
Sales revenue	2	467,296	571,511
Cost of sales		<u>(231,341)</u>	<u>(279,428)</u>
Gross profit		235,955	292,083
Other revenue	2	204,235	163,399
Distribution expenses		(33,915)	(71,099)
Marketing expenses		(158,424)	(181,388)
Occupancy expenses		(84,527)	(79,398)
Administrative expenses		(264,229)	(317,033)
Employee benefit expenses		(594,676)	(651,062)
Depreciation and amortisation		(16,564)	(31,451)
Finance costs		(117,391)	(128,630)
Other expenses		-	(17,735)
Options expenses		<u>(44,625)</u>	<u>-</u>
LOSS BEFORE INCOME TAX		(874,163)	(1,022,313)
Income tax expense/ (revenue)		<u>-</u>	<u>-</u>
LOSS FOR THE PERIOD		(874,163)	(1,022,313)
OTHER COMPREHENSIVE INCOME			
Exchange differences arising on translation of foreign controlled entities		<u>(19,864)</u>	<u>29,642</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		<u>(894,027)</u>	<u>(992,671)</u>
Profit (Loss) for the period attributable to:			
- Owners of parent entity		(829,896)	(956,372)
- non-controlling interest		<u>(44,267)</u>	<u>(65,942)</u>
Total loss for the period		<u>(874,163)</u>	<u>(1,022,314)</u>
Total comprehensive loss for the period attributable to:			
- Owners of parent entity		(824,029)	(924,234)
- non-controlling interest		<u>(69,998)</u>	<u>(68,438)</u>
Total comprehensive loss for the period		<u>(894,027)</u>	<u>(992,672)</u>
Earnings per share			
Basic earnings per share (cents per share)		(0.38)	(0.46)
Diluted earnings per share (cents per share)		(0.38)	(0.46)

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 2013

	NOTE	31.12.2013	30.06.2013
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents		124,968	409,760
Trade and other receivables		346,406	472,842
Inventories		137,673	358,457
Other assets		81,198	39,087
Financial assets		25,000	35,349
TOTAL CURRENT ASSETS		<u>715,244</u>	<u>1,315,495</u>
NON-CURRENT ASSETS			
Plant and equipment		169,236	144,946
TOTAL NON-CURRENT ASSETS		<u>169,236</u>	<u>144,946</u>
TOTAL ASSETS		<u>884,480</u>	<u>1,460,441</u>
CURRENT LIABILITIES			
Trade and other payables		230,628	311,405
Financial liabilities		1,600,000	1,300,001
Short term provisions		226,051	203,881
TOTAL CURRENT LIABILITIES		<u>2,056,679</u>	<u>1,815,287</u>
NON-CURRENT LIABILITIES			
Subordinated loan		303,504	277,402
Long term provisions		110,588	104,642
TOTAL NON-CURRENT LIABILITIES		<u>414,092</u>	<u>382,044</u>
TOTAL LIABILITIES		<u>2,470,771</u>	<u>2,197,331</u>
NET ASSETS/(LIABILITIES)		<u>(1,586,291)</u>	<u>(736,889)</u>
EQUITY			
Issued capital	5	31,731,715	31,731,715
Reserves		565,307	514,816
Accumulated losses		(33,516,112)	(32,686,217)
Owners interest		(1,219,090)	(439,686)
Non-controlling interest		(367,201)	(297,203)
TOTAL EQUITY	4	<u>(1,586,291)</u>	<u>(736,889)</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 2013

Note	Issued capital \$	Option Reserve \$	Foreign currency translation reserves \$	Non- controlling interest \$	Accumulated losses \$	Total \$
Balance at 1 July 2012	30,632,302	-	200,906	(205,148)	(30,656,127)	(28,067)
Total comprehensive income						
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)
Balance at 1 July 2013	31,731,715	31,745	483,070	(297,203)	(32,686,216)	(736,889)
Total comprehensive income for the period						
Loss for the period	-		-	(44,267)	(829,896)	(874,163)
Other comprehensive income	-		5,867	(25,731)	-	(19,864)
Total comprehensive loss for the period	-	-	5,867	(69,998)	(829,896)	(894,027)
Transactions with owners in their capacity as owners						
Shares issued during the period	-	44,625	-	-	-	44,625
Transaction costs	-		-	-	-	-
Total transactions with owners in their capacity as owners	-	44,625	-	-	-	44,625
Balance at 31 December 2013	31,731,715	76,370	488,937	(367,201)	(33,516,112)	(1,586,291)

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 2013

	NOTE	31.12.2013	31.12.2012
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		640,462	890,152
Payments to suppliers and employees		(1,176,500)	(1,253,156)
Interest received		2,705	1,489
Finance costs		(98,342)	(77,456)
		<u>(631,675)</u>	<u>(438,971)</u>
NET CASH FROM / (USED IN) OPERATING ACTIVITIES			
CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES			
Increase/(decrease) in term deposits		(10,349)	(2,192)
Purchase of property, plant and equipment (net of sales)		(21,597)	(44,704)
		<u>(31,946)</u>	<u>(46,896)</u>
NET CASH FROM / (USED IN) INVESTING ACTIVITIES			
CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES			
Proceeds from share issue		-	-
Transaction costs		-	-
Proceeds/(Repayment) from/of borrowings (net)		300,000	284,851
		<u>300,000</u>	<u>284,851</u>
NET CASH FROM / (USED IN) FINANCING ACTIVITIES			
Net increase/(decrease) in cash and cash equivalents held		(363,621)	(201,016)
Cash and cash equivalents at the beginning of the period		473,737	351,224
Effect of exchange rates on cash holdings in foreign currencies		14,852	885
		<u>124,968</u>	<u>151,093</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD			

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 2013**

NOTE 1 BASIS OF PREPARATION

These general purpose financial statements for the interim half-year reporting period ended 31 December 2013 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 2013, 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 adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to

New and revised Standards and amendments thereof and Interpretations effective for the current half-year include:

- AASB 10 "Consolidated Financial statements" and AASB 2011-7 "Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards"
- AASB 11 "Joint Arrangements" and AASB 2011-7 "Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards"
- AASB 12 "Disclosure of Interests in Other Entities" and AASB 2011-7 "Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards"
- AASB 127 "Separate Financial Statements" (2011) and AASB 2011-7 "Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards"
- AASB 128 "Investments in Associates and Joint Ventures" (2011) and AASB 2011-7 "Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards"
- AASB 13 "Fair Value Measurement" and AASB 2011-8 "Amendments to Australian Accounting Standards arising from AASB 13"
- AASB 119 "Employee Benefits" (2011) and AASB 2011-10 "Amendments to Australian Accounting Standards arising from AASB 119 (2011)"
- AASB 2012-2 "Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities"
- AASB 2012-5 "Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle"
- AASB 2012-10 "Amendments to Australian Accounting Standards - Transition Guidance and Other Amendments"

The above standards have extensive disclosure requirements, however these do not effect this half year financial report. The adoption of the above standards has not had

NOTE 2 REVENUE	31.12.2013	31.12.2012
	\$	\$
Sales Revenue	467,296	571,511
Other income		
- interest received	1,865	2,329
- other income	3,011	7,387
- export development/r&d grants	180,102	153,683
- gain on sale of assets	19,257	-
Total other income	<u>204,235</u>	<u>163,399</u>
Total revenue	<u>671,531</u>	<u>734,910</u>

NOTE 3 OPERATING EXPENSES

Distribution expenses	33,915	71,099
Administrative expenses	264,229	317,033
Marketing expenses	158,424	181,388
Occupancy expenses	84,527	79,398
Other expenses	-	17,735
Total expenses	<u>541,096</u>	<u>666,653</u>

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, 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

Phoslock Water Solutions Limited and Controlled Entities

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INTERIM FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

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 allocated 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.

(i) Segment performance

	Australia/NZ	Europe/UK	North America	Asia	Total	Eliminations	Total
Six months ended 31 December 2013							
Revenue							-
External sales	255,321	22,231	128,116	61,628	467,296	-	467,296
Inter-segment sales	-	3,526	-	44,975	48,501	(48,501)	-
Other revenue	202,370	-	-	-	202,370	-	202,370
Total segment revenue	457,691	25,757	128,116	106,603	718,167	(48,501)	669,666

Reconciliation of segment revenue to group revenue

Unallocated interest income							1,865
Total group revenue							<u>671,531</u>

Segment loss before tax	(421,961)	(33,724)	20,000	(40,294)	(475,979)	-	(475,979)
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Reconciliation of segment result to group net profit/(loss) before tax

Amounts not included in segment result but reviewed by the Board

- Depreciation and amortisation	(12,246)			(4,318)	(16,564)	-	(16,564)
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Unallocated items:

- Corporate charges							(264,229)
- Finance costs							(117,391)

Loss before income tax from continuing operations							<u>(874,163)</u>
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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

Reconciliation of segment revenue to group revenue

Unallocated interest income							2,329
Total group revenue							<u>734,910</u>

Segment loss before tax	(494,302)	(80,414)	35,000	(5,484)	(545,200)	-	(545,200)
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profit/(loss) before tax

Amounts not included in segment result but

- Depreciation and amortisation	(14,091)	-	-	(17,360)	(31,451)	-	(31,451)
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Unallocated items:

- Corporate charges							(317,033)
- Finance costs							(128,630)

Loss before income tax from continuing operations							<u>(1,022,314)</u>
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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 2013

	Australia/NZ	Europe/UK	North America	Asia	Total	Eliminations	Total
(ii) Segment assets							
31 December 2013							
Segment assets	1,526,060	877,041	-	101,982	2,505,083		2,505,083
Unallocated assets - intangibles						(1,620,603)	(1,620,603)
Total group assets							<u>884,480</u>
30 June 2013							
Segment assets	3,899,036	151,047	-	113,330	4,163,413		4,163,413
Unallocated assets - intangibles						(2,702,972)	(2,702,972)
Total group assets							<u>1,460,441</u>
(iii) Segment liabilities							
31 December 2013							
Segment liabilities	2,033,545	313,362	0	399,551	2,746,458		2,746,458
Unallocated liabilities						(275,687)	(275,687)
Total group liabilities							<u>2,470,771</u>
30 June 2013							
Segment liabilities	3,177,028	1,076,472	-	296,255	4,549,755		4,549,755
Unallocated liabilities						(2,352,424)	(2,352,424)
Total group liabilities							<u>2,197,331</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 36% of external revenue (2012:43%)

NOTE 5 SHARE CAPITAL

	31.12.2013		30.06.2013	
	No.	\$	No.	\$
At the beginning of the period	237,566,732	31,731,715	213,530,580	30,632,302
Shares issued during the period				
- 18 February 2013			23,166,587	1,065,663
- 26 February 2013			2,869,565	132,000
- Held as treasury stock			(2,000,000)	(92,000)
Transaction costs				(6,250)
Balance at the end of the period	<u>237,566,732</u>	<u>31,731,715</u>	<u>237,566,732</u>	<u>31,731,715</u>

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

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

NOTE 7 EVENTS SUBSEQUENT TO THE REPORTING DATE

A joint venture for manufacturing in China has expired as of 31 December 2013 and the joint venture partners have agreed not to renew the joint venture agreement. The Group has initiated the process to liquidate the joint venture company in China. Future inventory needs will be met by manufacturing at facilities located in the factory of a key raw material provider on a demand basis.

There were no other events since 31 December, 2013 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 (2012: \$nil).

NOTE 9 RELATED PARTY

The Group has a short-term loan and short-term convertible notes that is repayable to Link Traders (Aust) Pty Ltd, a major shareholder of the company and is controlled by Mr Lawrence Freedman, who is the Non-Executive Chairman of the company.

NOTE 10 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 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.

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 2013

NOTE 11 GOING CONCERN

The accounts 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 \$1,341,435 (30 June 2013: net current deficit of \$499,792) and recorded an operating loss after income tax of \$874,163 (31 December 2012: \$1,022,313) for the half year then ended. The net current liability includes a convertible note payable to Link Traders (Aust) Pty Ltd, the Group's major shareholder and a company controlled by the Group's Non-executive Chairman.

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. These conditions indicate a material uncertainty that may cast significant doubt about the ability of the Group to continue as a going concern.

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 12 months period ending February 2015 which the directors consider that the cash flow forecasts indicate that the Group will have sufficient cash flows to meet all commitments for the 12 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 52 separate projects; with 18 of the projects currently at the orders stage or have purchasing budgets allocated and have the equivalent of 2,000 tons worth of sale. In addition, a further 10 other projects have sales worth in excess of \$1 million and the remaining projects are valued at between \$20,000 to \$1 million.
- The company intends to raise additional funding from the equities market during 2014. 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 or investors.

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

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 12 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) give a true and fair view of the consolidated entity's financial position as at 31 December 2013 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 27th day of February 2014

W. W. Vick & Co.

Chartered Accountants

ABN 14 568 923 714



INDEPENDENT AUDITOR'S REVIEW REPORT

To the Members of Phoslock Water Solutions Limited

We have reviewed the accompanying half-year financial report of Phoslock Water Solutions Limited (the "Company") and its controlled entities (the "Group"), which comprises the consolidated balance sheet as at 31 December 2013, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the half-year ended on that date, notes comprising a summary of significant accounting policies and other selected 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 the 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 gives a true and fair view and 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 2013 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 the Company, 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 Group's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and
- b) Complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Emphasis of Matter

Material uncertainty regarding continuation as a going concern

Without qualifying our conclusion, we draw attention to Note 11 of the half-year financial report which indicates that the Group incurred a net loss of \$894,027 during the half-year ended 31 December 2013 and had accumulated losses of totalling \$33,516,112 as at 31 December 2013. This condition, along with other matters as set forth in Note 11, indicate the existence of material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and settle its liabilities in the normal course of the business and at the amounts stated in the half-year financial report.

5th Floor
379-383 Pitt Street
Sydney NSW 2000

Dated: 27th February, 2014

W W Vick & Co
Chartered Accountants

W W Vick & Co

Phillip Jones

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Phillip Jones - Partner