

7 August, 2015

Stephanie So
Senior Adviser
ASX Compliance Pty Limited
20 Bridge Street
Sydney NSW 2000

Dear Stephanie,

We refer to your letter dated 3 August, 2015 regarding Phoslock Water Solution's ("PHK") Appendix 4C for the period ending 30 June 2015. We respond as follows:

1. No, it does not intend to have negative operating cashflow for the foreseeable future. This is based on the Company's cashflow projections and a Major Project in a very advanced stage of being finalised (referred to on page one of the June 2015 Quarterly report) proceeding in August/September 2015. This contract will have an initial first payment of approx. \$800,000 to \$1,000,000 shortly after the signing of the contract. In addition, PHK has approx. \$680,000 of Debtors receivable over the next 4 months.
2. The Company has a factoring facility with Link Traders (Aust) Pty Ltd to discount debtor invoices. This allows the cash proceeds for a sale to be received soon after the sale instead of payment terms under the invoice.
The Company has also borrowed short term loans from Shareholder Directors from time to time.
3. The Company believes that it can continue its operations and meet its business objectives. The Company has previously advised the ASX that it is working on a number of large projects which are both material in size and value. The Company has referred to these are projects in the range of \$1 million to \$100 million of sales value. The Company will announce to the ASX the signing on any large projects when it has a binding agreement between the Company and the customer.
4. We confirm that the company is in compliance with the Listing Rules and, in particular, Listing Rule 3.1

Regards,



Robert Schuitema
Managing Director & Company Secretary
Phoslock Water Solutions Limited



3 August 2015

Mr Robert Schuitema
Managing Director
Phoslock Water Solutions Limited
Suite 403
25 Lime Street
Sydney NSW 2000

By email: rs61@bigpond.net.au

Dear Mr Schuitema,

Phoslock Water Solutions Limited (the "Entity"): ASX Appendix 4C Query

I refer to the Entity's quarterly report in the form of Appendix 4C for the period ended 30 June 2015 lodged with ASX Market Announcements Platform and released on Friday 31 July 2015 (the "Appendix 4C").

ASX notes that the Entity has reported:

- negative net operating cash flows for the quarter of \$582,000; and
- cash at the end of the quarter of \$161,000.

It is possible to conclude on the basis of the information provided in the Appendix 4C that if the Entity were to continue to expend cash at the rate for the quarter indicated by the Appendix 4C, the Entity may not have sufficient cash to continue funding its operations. In view of that, please respond to each of the following questions:

1. Does the Entity expect that it will continue to have negative operating cash flows for the time being and, if not, why not?
2. Has the Entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?
3. Does the Entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?
4. Can the Entity confirm that it is in compliance with Listing Rule 3.1 and that there is no information that should be given to ASX about its financial condition in accordance with that Rule that has not already been released to the market?

Please also provide any other information that the Entity considers may be relevant to ASX forming an opinion on whether the Entity is in compliance with Listing Rule 12.2.

When and where to send your response

This request is made under, and in accordance with Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by not later than 9.30am Australian Eastern Standard Time on Friday, 7 August 2015. If we do not have your response by then, ASX will have no choice but to consider suspending trading in the Entity's securities under Listing Rule 17.3.

You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, the Entity's obligation is to disclose the information "immediately". This may require the information to be disclosed before the deadline set out in the previous paragraph.

ASX reserves the right to release a copy of this letter and your response on the ASX Market Announcements Platform under Listing Rule 18.7A. Accordingly, your response should be in a form suitable for release to the market.

Your response should be sent to me by e-mail. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Listing Rule 3.1

Listing Rule 3.1 requires a listed entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. Exceptions to this requirement are set out in Listing Rule 3.1A.

The obligation of the Entity to disclose information under Listing Rules 3.1 and 3.1A is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

In responding to this letter, you should have regard to the Entity's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*.

Trading halt

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in the Entity's securities under Listing Rule 17.1.

If you wish a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We may require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted.

You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

If you have any queries or concerns about any of the above, please contact me immediately.

Yours sincerely,

[sent electronically without signature]

Stephanie So
Senior Adviser, Listings Compliance (Sydney)