



Phoslock Water Solutions Ltd.  
ABN 88 099 555 290

## 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 2014

Previous Corresponding Reporting Period: 31 December, 2013

Results for Announcement to the Market:			A\$'000
Revenue from Ordinary Activities	down	25% to	487
Earnings before depreciation, tax and interest (EBITDA)	improvement	3% to	-672
Profit (loss) from ordinary activities after tax attributable to members (NPAT)	down	2% to	-849
Net Profit (loss) for the period attributable to members	down	12% to	-923

The company does not propose to pay any dividends for the six months ended 31 December, 2014.

#### NTA Backing:

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

- 31 December, 2014	(1.27)
- 30 June, 2014	(0.93)

#### Commentary on Results:

Detailed commentary on results contained in attached Interim Financial Statements

(Company Secretary)  
Robert Schuitema

Dated: 27 February, 2015



**Phoslock Water Solutions Limited and Controlled  
Entities  
A.B.N. 88 099 555 290  
INTERIM FINANCIAL REPORT  
FOR THE HALF YEAR ENDED 31 DECEMBER 2014**

**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 2014.

### **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 period of \$486,674 represent a 25% decrease over the corresponding six month period. An additional sales order of \$245,700 was received before 31 December, 2014, however this was not recognised as revenue as goods relating to this sale were not dispatched to the customer before 31 December, 2014. This revenue will be included in the second half of FY14-15. The major sales regions were Europe, North America and Australia. The Company received an Australian Government Grant for ongoing research and development. Revenue was affected by several near term orders being delayed from October-December 2014 to the first half of 2015.

IETC, the former manufacturing joint venture in China (71% owned by PWS) is in the final stages of being wound-up. The process of winding up a company with foreign shareholders in China is very time consuming and needs approval of a number of government departments. For the period to 31 December, 2014 the Company booked one-off cost of \$158,228 relating to the winding up of the IETC and termination payments to IETC management.

Operating expenses (excluding one-off IETC winding up costs, depreciation, financing and options costs) for the 6 months decreased by 30% to \$790,908 (2013:\$1,135,772). This was the result of lower costs in all expenses categories. 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 loss for the 6 months of the consolidated entity including one-off IETC wind-up costs and after providing for non-controlling interests amounted to \$849,469 (2013: (\$829,896)).

Earnings before depreciation and amortisation, tax and interest and impairment losses (EBITDA) entity but including one-off IETC wind-up costs for the 6 months were (\$672,172) which is a 3% improvement over the previous period (FY2013: \$693,717).

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 FY14-15 were delayed into the second half of FY14-15. 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.

Sales from the European/UK region were lower than the previous period. Phoslock Europe has a strong pipeline of 20 projects. To date, Phoslock Europe has completed 51 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 2014 and several near term projects are scheduled to take place in the first half of 2015.

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, all of the 11 large projects (defined as sales revenue from \$1 million to \$100 million) have had some form of delay in either approval, funding or completion of other works prior to the application of Phoslock. All of the large project customers are governmental authorities and many of these have complex approval processes. Delays relating to decision making by governmental organizations is often beyond the control of the Company. The Company works with its customers to ensure that approval processes are streamlined as much as possible.

The Company and its licensees are currently working on 49 separate projects (including the 11 large projects) - 20 in Europe/UK; 14 in North America; 6 in Asia; 5 in Latin America and 4 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 22 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 22 projects involve a total of approx 2,300 tons and have a sales value of in excess of \$7 million.

The IETC manufacturing joint venture in China is in the final stages of being wound-up. 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. Production costs at this plant are lower than at PWS' previous manufacturing facility. Furthermore, transportation costs for raw materials delivered to the plant and finished goods from the plant to overseas markets are significantly lower as the raw material suppliers are located close to the new plant and an export port is located nearby. As advised in the December 2014 quarterly, the Sichuan plant is currently undertaking a large production run to meet both current orders and anticipated orders from large projects.

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

Operating expenses have continued to fall to a historical low base. As sales volumes increase, both production costs are expected to decrease and operating costs to remain relatively constant. The decline in the A\$ versus US\$ and to a lesser extent, Euro and C\$, is positive for the Company as it has improved A\$ operating margins.

### **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 2014 has been received and can be found on page 4 of the directors report.

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



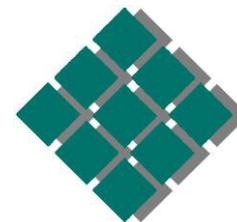
Mr Robert Schuitema  
Managing Director

Dated at Sydney, 27 February 2015

# W. W. Vick & Co.

Chartered Accountants

ABN 14 568 923 714



## Lead 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 the review for the half-year ended 31 December 2014 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 this 27th day of February 2015

Fayworth House, Suite 503, 5<sup>th</sup> Floor, 379-383 Pitt Street, Sydney, NSW 2000  
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Standards Legislation

**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 2014**

	NOTE	31.12.2014	31.12.2013
		\$	\$
Sales revenue	2	251,223	467,296
Cost of sales		<u>(167,935)</u>	<u>(231,341)</u>
Gross profit		83,288	235,955
Other revenue	2	235,451	204,235
Distribution expenses	3	(14,400)	(33,915)
Marketing expenses	3	(74,105)	(158,424)
Occupancy expenses	3	(51,416)	(84,527)
Administrative expenses	3	(202,571)	(264,229)
Employee benefit expenses		(448,413)	(594,679)
Depreciation and amortisation		(15,591)	(16,564)
Finance costs		(220,185)	(117,391)
Winding-up expenses	3	(158,228)	-
Options expenses		<u>(43,357)</u>	<u>(44,625)</u>
<b>LOSS BEFORE INCOME TAX</b>		(909,526)	(874,163)
Income tax expense/ (revenue)		<u>-</u>	<u>-</u>
<b>LOSS FOR THE PERIOD</b>		(909,526)	(874,163)
<b>OTHER COMPREHENSIVE INCOME</b>			
Exchange differences arising on translation of foreign controlled entities		<u>(29,870)</u>	<u>(19,864)</u>
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b>		<u>(939,396)</u>	<u>(894,027)</u>
<b>Profit (Loss) for the period attributable to:</b>			
- Owners of parent entity		(849,469)	(829,896)
- non-controlling interest		<u>(60,057)</u>	<u>(44,267)</u>
Total loss for the period		<u>(909,526)</u>	<u>(874,163)</u>
<b>Total comprehensive loss for the period attributable to:</b>			
- Owners of parent entity		(923,118)	(824,029)
- non-controlling interest		<u>(16,278)</u>	<u>(69,998)</u>
Total comprehensive loss for the period		<u>(939,396)</u>	<u>(894,027)</u>
<b>Earnings per share</b>			
Basic earnings per share (cents per share)		(0.40)	(0.38)
Diluted earnings per share (cents per share)		(0.40)	(0.38)

*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 2014**

	NOTE	31.12.2014	30.06.2014
		\$	\$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		150,549	248,490
Trade and other receivables		379,315	402,245
Inventories		42,329	132,971
Other assets		42,520	32,560
Financial assets		55,075	55,149
<b>TOTAL CURRENT ASSETS</b>		<u>669,787</u>	<u>871,415</u>
<b>NON-CURRENT ASSETS</b>			
Plant and equipment		134,474	150,065
<b>TOTAL NON-CURRENT ASSETS</b>		<u>134,474</u>	<u>150,065</u>
<b>TOTAL ASSETS</b>		<u>804,261</u>	<u>1,021,480</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		685,959	322,586
Financial liabilities		343,141	983,507
Convertible notes		-	1,300,000
Short term provisions		222,405	244,788
<b>TOTAL CURRENT LIABILITIES</b>		<u>1,251,505</u>	<u>2,850,881</u>
<b>NON-CURRENT LIABILITIES</b>			
Financial liabilities		426,177	284,628
Convertible notes		2,050,000	-
Long term provisions		113,976	107,330
<b>TOTAL NON-CURRENT LIABILITIES</b>		<u>2,590,153</u>	<u>391,958</u>
<b>TOTAL LIABILITIES</b>		<u>3,841,658</u>	<u>3,242,839</u>
<b>NET ASSETS/(LIABILITIES)</b>		<u>(3,037,397)</u>	<u>(2,221,358)</u>
<b>EQUITY</b>			
Issued capital	5	31,811,715	31,731,715
Reserves		635,683	605,919
Accumulated losses		<u>(35,103,096)</u>	<u>(34,253,628)</u>
Owners interest		(2,655,698)	(1,915,994)
Non-controlling interest		<u>(381,699)</u>	<u>(305,364)</u>
<b>TOTAL EQUITY</b>	4	<u>(3,037,397)</u>	<u>(2,221,358)</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 2014**

Note	Issued capital \$	Option Reserve \$	Foreign currency translation reserves \$	Non- controlling interest \$	Accumulated losses \$	Total \$
<b>Balance at 1 July 2013</b>	31,731,715	31,745	483,070	(297,203)	(32,686,216)	(736,889)
<b>Total comprehensive income</b>						
Loss for the period	-	-	-	(44,267)	(829,896)	(874,163)
Other comprehensive income	-	-	5,867	(25,731)	-	(19,864)
<b>Total comprehensive loss for the period</b>	-	-	5,867	(69,998)	(829,896)	(894,027)
<b>Transactions with owners in their capacity as owners</b>						
Share-based payment	-	44,625	-	-	-	44,625
Transaction costs	-	-	-	-	-	-
Total transactions with owners in their capacity as owners	-	44,625	-	-	-	44,625
<b>Balance at 31 December 2013</b>	31,731,715	76,370	488,937	(367,201)	(33,516,112)	(1,586,291)
<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 for the period</b>						
Loss for the period	-	-	-	(60,057)	(849,469)	(909,526)
Other comprehensive income	-	-	(13,592)	(16,278)	-	(29,870)
<b>Total comprehensive 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
Transaction costs	-	-	-	-	-	-
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)

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 2014**

	NOTE	31.12.2014	31.12.2013
		\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		553,804	640,462
Payments to suppliers and employees		(875,952)	(1,176,500)
Interest received		1,578	2,705
Finance costs		(110,577)	(98,342)
		<u>(110,577)</u>	<u>(98,342)</u>
<b>NET CASH FROM / (USED IN) OPERATING ACTIVITIES</b>		<u>(431,147)</u>	<u>(631,675)</u>
<b>CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES</b>			
Increase/(decrease) in term deposits		-	(10,349)
Purchase of property, plant and equipment (net of sales)		-	(21,597)
		<u>-</u>	<u>(21,597)</u>
<b>NET CASH FROM / (USED IN) INVESTING ACTIVITIES</b>		<u>-</u>	<u>(31,946)</u>
<b>CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES</b>			
Proceeds from share issue		80,000	-
Proceeds/(Repayment) from/of borrowings (net)		240,000	300,000
		<u>240,000</u>	<u>300,000</u>
<b>NET CASH FROM / (USED IN) FINANCING ACTIVITIES</b>		<u>320,000</u>	<u>300,000</u>
Net increase/(decrease) in cash and cash equivalents held		(111,147)	(363,621)
Cash and cash equivalents at the beginning of the period		248,490	473,737
Effect of exchange rates on cash holdings in foreign currencies		13,206	14,852
		<u>13,206</u>	<u>14,852</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>		<u>150,549</u>	<u>124,968</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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF YEAR ENDED 31 DECEMBER 2014

**NOTE 1 BASIS OF PREPARATION**

These general purpose financial statements for the interim half-year reporting period ended 31 December 2014 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standards *AASB 134: Interim Financial Reporting*.

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 2014, 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 applicable new accounting standards and interpretations as of 1 July 2014 in the financial accounts as follows:

- AASB 1031 *Materiality (2013)* effective for annual periods beginning on or after 1 January 2014;
- AASB 2012-3 *Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities*;
- AASB 2013-3 *Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets*;
- AASB 2013-9 *Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments*
- Annual Improvements to IFRSs 2010-2012 Cycle;
- Annual Improvements to IFRSs 2011-2013 Cycle.

The adoption of the above accounting standards had no material impact on the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

	31.12.2014	31.12.2013
	\$	\$
<b>NOTE 2 REVENUE</b>		
Sales Revenue	251,223	467,296
<b>Other income</b>		
- interest received	1,578	1,865
- other income	-	3,011
- export development/r&d grants	235,903	180,102
- gain on sale of assets	-	19,257
Total other income	237,481	204,235
Total revenue	488,704	671,531

**NOTE 3 OPERATING EXPENSES**

Distribution expenses	14,400	33,916
Administrative expenses	202,571	264,229
Marketing expenses	74,105	158,424
Occupancy expenses	51,416	84,527
Winding-up expenses (a)	158,228	-
Total expenses	500,719	541,096

(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.

**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*

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.

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 2014

*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.

**(i) Segment performance**

	Australia/NZ	Europe/UK	North America	Asia	Total	Eliminations	Total
<b>Six months ended 31 December 2014</b>							
<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							<b>488,704</b>
<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>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	(15,591)			-	(15,591)	-	(15,591)
Unallocated items:							
- Corporate charges							(270,436)
- Finance costs							(220,185)
Loss before income tax from continuing operations							<b>(909,526)</b>
<b>Six months ended 31 December 2013</b>							
<b>Revenue</b>							
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
<b>Total segment revenue</b>	<b>457,691</b>	<b>25,757</b>	<b>128,116</b>	<b>106,603</b>	<b>718,167</b>	<b>(48,501)</b>	<b>669,666</b>
<i>Reconciliation of segment revenue to group revenue</i>							
Unallocated interest income							1,865
Total group revenue							<b>671,531</b>
<b>Segment loss before tax</b>	<b>(421,961)</b>	<b>(33,724)</b>	<b>20,000</b>	<b>(40,294)</b>	<b>(475,979)</b>	<b>-</b>	<b>(475,979)</b>
<i>profit/(loss) before tax</i>							
Amounts not included in segment result but							
- Depreciation and amortisation	(12,246)			(4,318)	(16,564)	-	(16,564)
Unallocated items:							
- Corporate charges							(264,229)
- Finance costs							(117,391)
Loss before income tax from continuing operations							<b>(874,163)</b>

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 2014

	Australia/NZ	Europe/UK	North America	Asia	Total	Eliminations	Total
<b>(ii) Segment assets</b>							
<b>31 December 2014</b>							
<b>Segment assets</b>	2,344,476	112,841	-	121,706	2,579,023	(1,774,762)	804,261
Unallocated assets - intangibles						-	-
<b>Total group assets</b>							<u>804,261</u>
<b>30 June 2014</b>							
<b>Segment assets</b>	2,505,214	85,503	-	103,067	2,693,784	(1,672,304)	1,021,480
Unallocated assets - intangibles						-	-
<b>Total group assets</b>							<u>1,021,480</u>
<b>(iii) Segment liabilities</b>							
<b>31 December 2014</b>							
<b>Segment liabilities</b>	3,360,509	1,109,683	-	522,793	4,992,985	(1,151,326)	3,841,659
Unallocated liabilities						-	-
<b>Total group liabilities</b>							<u>3,841,659</u>
<b>30 June 2014</b>							
<b>Segment liabilities</b>	2,946,766	993,749	-	277,254	4,217,769	(974,930)	3,242,839
Unallocated liabilities						-	-
<b>Total group liabilities</b>							<u>3,242,839</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 (2013:36%)

**NOTE 5 SHARE CAPITAL**

	31.12.2014		30.06.2014	
	No.	\$	No.	\$
At the beginning of the period	237,566,732	31,731,715	237,566,732	31,731,715
Contributions and distributions during the period				
- Sale of treasury shares	2,000,000	80,000		
Balance at the end of the period	<u>239,566,732</u>	<u>31,811,715</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**

There were no other events since 31 December 2014 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 (2013: \$nil).

**NOTE 9 RELATED PARTY**

The Group has a short-term loan that is repayable to Link Traders (Aust) Pty Ltd ("Link"). The Group has issued, approved by shareholders, convertible notes to Link and Sail Ahead Pty Ltd ("Sail Ahead"). Link is a company controlled by Mr Laurence Freedman, Non-Executive Chairman of the Company. Sail Ahead is a company controlled by Mr Robert Schuitema, Managing Director 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 2014**

**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 \$581,718 (30 June 2014: net current liabilities of \$1,979,466) and recorded an operating loss after income tax of \$909,526 (31 December 2013: \$874,163) for the half year then ended. The net current liability excludes the convertible notes 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 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 month period ending 28 February 2016 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 49 separate projects (including the 11 large projects) - 20 in Europe/UK; 14 in North America; 6 in Asia; 5 in Latin America and 4 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 22 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 22 projects involve a total of approx 2,300 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 2015. 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 Phoslock Water Solutions Limited 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 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 2014 and its performance for the half-year period ended on that date; and
- 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.

On behalf of the directors



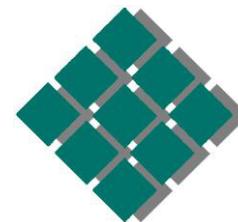
Robert Schuitema  
Director

Dated this 27th day of February 2015

# W. W. Vick & Co.

Chartered Accountants

ABN 14 568 923 714



## INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF PHOSLOCK WATER SOLUTIONS LTD ABN 88 099 555 290

### Report on the Financial Report

We have reviewed the accompanying half-year financial report of Phoslock Water Solutions Ltd, which comprises the condensed consolidated statement of financial position as at 31 December 2014 condensed consolidated statement of profit or loss and condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes 1 to 11 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

#### *Directors' Responsibility for the half-year Financial Report*

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation 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 2014 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 Ltd 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 2014 and of its performance for the half-year ended on that date; and
- (b) 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*

We draw attention to Note 11 in the financial report which indicates that the consolidated entity incurred a net loss of \$909,526 during the half-year ended 31 December 2014, has accumulated losses totalling \$35,103,097, a net current liability position of \$581,718 and net cash used in operating activities of \$431,147 as at 31 December 2014. These conditions, along with other matters disclosed in Note 11, 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



Phillip Jones - Partner

Dated this 27th day of February 2015