



PHOSLOCK WATER SOLUTIONS LIMITED

and CONTROLLED ENTITIES

ABN 88 099 555 290

INTERIM FINANCIAL REPORT

FOR THE HALF YEAR ENDED 31 DECEMBER 2009

**Phoslock Water Solutions Limited
and Controlled Entities
ABN 88 099 555 290
Interim Financial Report**

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**Phoslock Water Solutions Limited
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DIRECTORS' REPORT

Your directors submit the financial report of the consolidated group for the half-year ended 31 December 2009.

Directors

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

Dr David Garman - Non-Executive Chairman

Hon. Pam Allan – Non-Executive Director

Robert Schuitema – Managing Director

Review of Operations

The financial performance of the company for the first half of FY09/10 was a significant improvement on the corresponding period. Sales increased five fold and the Loss before Interest Tax and Depreciation & Amortisation (EBITDA) was \$611,375 versus \$1,466,303 for the corresponding period.

The sales increase was attributable to two large lake applications in northern Germany, further medium sized applications in other European countries and the Company's first significant order from North America. The size of projects that Phoslock is being used on has significantly increased with sales now in the 100-250 ton range. The sales pipeline has increased significantly with a number of new projects added during the first half of the year. A number of these projects are in the United States and Canada. The US EPA is currently banning or severely restricting a number of chemical products for use in water bodies, hence customers are looking for environmental friendly solutions like Phoslock.

Operating expenses (including employee benefits) for the first half were \$1,365,316 which is 11% less than the corresponding period last year. This is as a result of lower employee costs, tight expense management and better use of our overseas licensees and distributors.

During the first half of FY09/10 the \$1.0m of Converting Notes converted into 5.6 million PHK shares at 18cps. The Company also issued approx 12.7 million new shares at 11cents per share raising approx \$1.4m.

As at 31 December, 2009 the Company had Net Assets of \$5.7 million including cash of \$957,666. The Company is debt free (other than normal trade creditors). During the first half of FY09/10 the Company increased inventories in anticipation of supplying a number of large orders anticipated over the next six months. Inventories increased by \$229,301 during the period.

The result for the second half of FY09/10 is dependant on several medium/large orders being secured. Customers have recently committed to two projects with a value of \$200,000 which have been applied over the last month. The Company is currently in discussions on three projects each greater than \$1.5 million. Securing any one of these three projects will have a material effect on the Company's result for the full year.

The sales pipeline beyond June 2010 is very strong with work well advanced on a number of very large projects in Europe, North America and Asia.

Rounding of Amounts

The consolidated group has applied the relief available to it in ASIC Class Order 98/100 and accordingly certain amounts in the financial report and the directors' report have been rounded off to the nearest \$1,000.

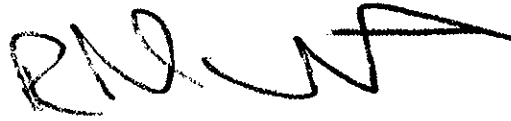
Auditor's Declaration

The lead auditor's independence declaration under s 307C of the *Corporations Act 2001* is set out on page 4 for the half-year ended 31 December 2009.

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DIRECTORS' REPORT

This report is signed in accordance with a resolution of the Board of Directors.



.....
Robert Schuitema

Director

Dated this 26th day of February, 2010.

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, during the half-year ended 31 December 2009 there have been:

- a) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

Signed at Brisbane, 26 February 2010



WHK HORWATH



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PRINCIPAL**

Liability limited by a scheme approved under Professional Standards Legislation other than for the acts or omissions of financial services licensees.



WHK Pty Ltd trading as WHK Horwath Brisbane is a member of Crowe Horwath International Association, a Swiss Verein.
Each member firm of Crowe Horwath is a separate and independent legal entity

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A WHK Group firm

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

	Note	Consolidated Group 31.12.2009	31.12.2008
		\$	\$
Revenue	2	1,055,514	173,859
Cost of sales		(301,573)	(115,075)
Gross profit		753,941	58,784
Employee and director benefits expense		(676,924)	(774,941)
Operating expenses	3	(688,392)	(750,061)
Share of net profits of associates		-	(85)
Earnings before interest tax depreciation and amortisation (EBITDA)		(611,375)	(1,466,303)
Depreciation and amortisation expense		(245,016)	(207,805)
Finance costs		(44,232)	(62,625)
Interest income		7,404	23,643
Loss before income tax benefit		(893,219)	(1,713,090)
Income tax benefit		-	96,646
Loss for the period		(893,219)	(1,616,444)
Other comprehensive income			
Exchange differences arising on translation of foreign controlled subsidiary		29,822	236,758
Total comprehensive income / (loss) for the period		(863,397)	(1,379,686)
Loss for the period attributable to:			
Members of the parent entity		(847,324)	(1,537,548)
Non-controlling interest		(45,895)	(78,896)
		(893,219)	(1,616,444)
Total comprehensive income / (loss) attributable to:			
Members of the parent entity		(831,697)	(1,359,316)
Non-controlling interest		(31,700)	(20,370)
		(863,397)	(1,379,686)
Earnings per share			
Basic earnings per share (cents)		(0.47)	(0.96)
Diluted earnings per share (cents)		(0.45)	(0.96)

The accompanying notes form part of these financial statements.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2009

	Note	Consolidated Group	
		31.12.2009	30.06.2009
		\$	\$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		957,666	527,148
Trade and other receivables		876,686	517,038
Inventories		1,290,788	1,061,487
Other assets		212,111	61,996
TOTAL CURRENT ASSETS		3,337,251	2,167,669
NON-CURRENT ASSETS			
Trade and other receivables		325,105	361,190
Property, plant and equipment		380,786	485,176
Intangible assets		2,608,522	2,778,742
TOTAL NON-CURRENT ASSETS		3,314,413	3,625,108
TOTAL ASSETS		6,651,664	5,792,777
CURRENT LIABILITIES			
Trade and other payables		618,374	349,348
Other financial liabilities		21,110	1,050,609
Short-term provisions		106,673	78,723
TOTAL CURRENT LIABILITIES		746,157	1,478,680
NON-CURRENT LIABILITIES			
Borrowings		108,501	95,271
Long-term provisions		63,000	50,000
TOTAL NON-CURRENT LIABILITIES		171,501	145,271
TOTAL LIABILITIES		917,658	1,623,951
NET ASSETS		5,734,006	4,168,826
EQUITY			
Issued capital	5	29,282,929	26,854,352
Reserves		1,236,566	1,220,939
Retained earnings		(24,782,701)	(23,935,377)
Parent entity interest		5,736,794	4,139,914
Non-controlling interest		(2,788)	28,912
TOTAL EQUITY		5,734,006	4,168,826

The accompanying notes form part of these financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

Note	Issued Capital Ordinary \$	Option reserves \$	Foreign currency translation reserves \$	Minority equity Interests \$	Accumulated losses \$	Total \$
31 December 2008						
Balance at 1.7.2008	24,977,235	978,313	(102,538)	104,996	(21,319,072)	4,638,934
Total comprehensive income						
Net loss for the period	-	-	-	(78,896)	(1,537,548)	(1,616,444)
Exchange differences arising on translation of foreign controlled subsidiaries	-	-	178,232	58,526	-	236,758
Total comprehensive income	-	-	178,232	(20,370)	(1,537,548)	(1,379,686)
Transactions with owners in their capacity as owners						
Shares issued during the period	1,716,472	-	-	-	-	1,716,472
Transaction costs	(33,839)	-	-	-	-	(33,839)
Options expense	-	28,440	-	-	-	28,440
Total transactions with owners in their capacity as owners	1,682,633	28,440	-	-	-	1,711,073
Balance at 31.12.2008	26,659,868	1,006,753	75,694	84,626	(22,856,620)	4,970,321
31 December 2009						
Balance at 1.7.2009	26,854,352	1,006,753	214,186	28,912	(23,935,377)	4,168,826
Total comprehensive income						
Net loss for the period	-	-	-	(45,895)	(847,324)	(893,219)
Exchange differences arising on translation of foreign controlled subsidiaries	-	-	15,627	14,195	-	29,822
Total comprehensive income	-	-	15,627	(31,700)	(847,324)	(863,397)
Transactions with owners in their capacity as owners						
Shares issued during the period	2,466,131	-	-	-	-	2,466,131
Transaction costs	(37,554)	-	-	-	-	(37,554)
Total transactions with owners in their capacity as owners	2,428,577	-	-	-	-	2,428,577
Balance at 31.12.2009	4 29,282,929	1,006,753	229,813	(2,788)	(24,782,701)	5,734,006

The accompanying notes form part of these financial statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE
HALF-YEAR ENDED 31 DECEMBER 2009

	Consolidated Group	
	31.12.2009	31.12.2008
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	750,721	368,446
Payments to suppliers and employees	(1,601,770)	(1,417,452)
Interest received	7,404	23,643
Finance costs	(22,402)	(2,623)
Tax (paid / received)	-	96,646
Net cash (used in)/provided by operating activities	(866,047)	(931,340)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of non-current assets	3,591	57,830
Purchase of other non-current assets	(13,459)	(7,996)
Purchase of property, plant & equipment	(7,515)	(4,149)
Net cash (used in) / provided by investing activities	(17,383)	45,685
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	1,330,575	1,641,800
Proceeds from borrowings	27,456	28,294
Proceeds from issue of converting notes	-	100,000
Transaction costs	(37,554)	(33,839)
Net cash used in/(provided by) financing activities	1,320,477	1,736,255
Net increase in cash held	437,047	850,600
Cash and cash equivalents at beginning of period	527,148	349,610
Effects of exchange rates on cash holdings in foreign currencies	(6,529)	64,690
Cash and cash equivalents at end of period	957,666	1,264,900

The accompanying notes form part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

NOTE 1: BASIS OF PREPARATION

These general purpose financial statements for the interim half-year reporting period ended 31 December 2009 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standards including 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 2009, 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 except for the adoption of the following new and revised Accounting Standards.

Accounting Standards not Previously Applied

The Group has adopted the following new and revised Australian Accounting Standards issued by the AASB which have mandatory application in the current interim period. Disclosures required by these Standards that are deemed material have been included in this financial report on the basis that they represent a significant change in information from that previously made available.

Presentation of Financial Statements

AASB 101 prescribes the contents and structure of the financial statements. Changes reflected in this financial report include:

- the replacement of Income Statement with the Statement of Comprehensive Income. Total comprehensive income includes the changes in equity during the period other than those changes resulting from transactions with owners in their capacity as owners. Items of income and expense not recognised in profit or loss are now disclosed as components of 'other comprehensive income.
- the adoption of the separate income statement/single statement approach to the presentation of the Statement of Comprehensive Income;
- other financial statements are renamed in accordance with the Standard; and
- presentation of a third Statement of Financial Position as at the beginning of a comparative financial year where relevant amounts have been affected by a retrospective change in accounting policy or material reclassification of items.

Operating Segments

From 1 January 2009, operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the group's chief operating decision maker which, for the Group, is the board of directors. In this regard, such information is provided using different measures to those used in preparing the Statement of Comprehensive Income and Statement of Financial Position. Reconciliations of such management information to the statutory information contained in the interim financial report have been included.

As a result of the adoption of the revised AASB 8, certain cash generating units have been redefined having regard to the requirements in AASB 136: Impairment of Assets.

Business Combinations and Consolidation Procedures

Revised AASB 3 is applicable prospectively from 1 July 2009. Changes introduced by this Standard, or as a consequence of amendments to other Standards relating to business combinations which are expected to affect the Group, include the following:

- All business combinations, including those involving entities under common control, are accounted for by applying the acquisition method which prohibits the recognition of contingent liabilities of the acquiree at acquisition date that do not meet the definition of a liability. Costs incurred that relate to

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

NOTE 1: BASIS OF PREPARATION

the business combination are expensed instead of comprising part of the goodwill acquired on consolidation. Changes in the fair value of contingent consideration payable are not regarded as measurement period adjustments and are recognised through profit or loss unless the change relates to circumstances which existed at acquisition date.

- Unrecognised deferred tax assets of the acquiree may be subsequently realised within 12 months of acquisition date on the basis of facts and circumstances existing at acquisition date with a consequential reduction in goodwill. All other deferred tax assets subsequently recognised are accounted for through profit or loss.
- The proportionate interest in losses attributable to non-controlling interests is assigned to non-controlling interests irrespective of whether this results in a deficit balance. Previously, losses causing a deficit to non-controlling interests were allocated to the parent entity.
- Where control of a subsidiary is lost, the balance of the remaining investment account shall be remeasured to fair value at the date that control is lost.

Revenue Recognition

Dividends received from a subsidiary, joint venture or associate shall be recognised as dividend revenue in the profit or loss irrespective of whether such dividends may have been paid out of pre-acquisition profits. Previously, such dividends were treated as a return of capital invested. Such dividends may be an indicator of impairment where the carrying amount of the investment exceeds the consolidated net assets relating to that investment or where the dividend exceeds the total comprehensive income of the respective investee in the period the dividend is declared.

Change of format to Income Statement/ Consolidated Statement of Comprehensive Income

The Company has changed the format of the Income Statement from that used for the half year ended 31 December 2008 and for the year ended 30 June 2009. The Company has looked at formats used by other companies and taken feedback from investors, analysts and brokers regarding the most suitable format. The company is using the format of an Income Statement which focuses on Earnings before interest, tax, depreciation & amortisation (EBITDA). EBITDA is a key financial number used by investors and analysts to determine the performance of a company.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

	Consolidated Group	
	31.12.2009	31.12.2008
	\$	\$
NOTE 2: REVENUE		
Sales revenue	916,062	173,859
Export development and R&D grants	139,452	-
Total revenue	<u>1,055,514</u>	<u>173,859</u>
NOTE 3: OPERATING EXPENSES		
Distribution expenses	57,415	37,187
Administration expenses	293,333	443,814
Marketing expenses	232,616	138,593
Occupancy expenses	65,374	91,079
Other expenses	39,654	39,388
Total expenses	<u>688,392</u>	<u>750,061</u>

NOTE 4: OPERATING SEGMENTS

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 and Asia. 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, North America 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

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NOTE 4: OPERATING SEGMENTS

recoveries.

Inter-segment loans payable and receivable are initially recognised at the consideration received net of transaction costs and then revalued to the exchange rate used at the end of the current accounting period.

Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Unless indicated otherwise in the segment assets note, investments in financial assets, deferred tax assets and intangible assets have not been allocated to operating segments.

Segment liabilities

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

Unallocated items

The following items of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

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

Comparative information

This is the first reporting period in which AASB 8: Operating Segments has been adopted. Comparative information has been restated to conform to the requirements of the Standard.

(i) Segment performance

	Australia/NZ	Europe/UK	North America	Asia	Total	Eliminations	Total
	\$	\$	\$	\$	\$	\$	\$
Six months ended 31.12.2009							
Revenue							
External sales	229,373	496,577	309,814	19,750	1,055,514	-	1,055,514
Inter-segment sales	35,848	-	-	224,887	260,735	(260,735)	-
Other revenue	-	31	-	-	31	-	31
Total segment revenue	265,221	496,608	309,814	244,637	1,316,280	(260,735)	1,055,545
<i>Reconciliation of segment revenue to group revenue</i>							
Unallocated interest income							7,373
Total group revenue							<u>1,062,918</u>

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NOTE 4: OPERATING SEGMENTS

	Australia/NZ	Europe/UK	North America	Asia	Total	Eliminations	Total
	\$	\$	\$	\$	\$	\$	\$
Segment loss before tax	(342,074)	(121,687)	61,500	(5,448)	(407,709)	-	(407,709)

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	(200,944)	(947)	-	(43,125)	(245,016)	-	(245,016)
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Unallocated items:

• Corporate charges							(196,262)
• Finance costs							(44,232)

Loss before income tax from continuing operations

(893,219)

**Six months ended
31.12.2008**

Revenue

External sales	61,124	112,735	-	-	173,859	-	173,859
Inter-segment sales	-	-	-	86,950	86,950	(86,950)	-
Other revenue		14		83	97	-	97
Total segment revenue	61,124	112,749	-	87,033	260,906	(86,950)	173,956

Reconciliation of segment revenue to group revenue

Unallocated interest income

23,547

Total group revenue

197,503

Segment loss before tax	(882,067)	(187,620)	(45,000)	(120,404)	(1,235,091)	-	(1,235,091)
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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	(190,930)	(1,868)	-	(15,007)	(207,805)	-	(207,805)
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Unallocated items:

• Corporate charges							(207,570)
• Finance costs							(62,624)

Loss before income tax from continuing operations

(1,713,090)

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NOTE 4: OPERATING SEGMENTS

(ii) Segment assets

	Australia/NZ Europe/UK		North America	Asia	Total	Eliminations	Total
	\$	\$	\$	\$	\$	\$	\$
31.12.2009							
Segment assets	3,925,423	162,621	-	796,594	4,884,638	(841,496)	4,043,142
Unallocated assets- intangibles							2,608,522
Total group assets							<u>6,651,664</u>
30.06.2009							
Segment assets	2,998,354	144,939	-	673,542	3,816,835	(802,800)	3,014,035
Unallocated assets- intangibles							2,778,742
Total group assets							<u>5,792,777</u>

(iii) Major customers

The Group has a number of customers to which it provides both products and services. The Group's largest external customer accounts 41% of external revenue (2008 27%). The next most significant client accounts for 27% (2008 0%) of external revenue.

NOTE 5: SHARE CAPITAL

	Consolidated Group			
	31.12.2009		30.6.2009	
	Number	\$	Number	\$
At the beginning of the period	167,805,462	26,854,352	150,633,784	24,977,236
Shares issued during the period:				
18 August 2008	-	-	358,033	53,705
18 August 2008	-	-	9,561,817	1,051,800
16 October 2008	-	-	5,000,000	550,000
20 October 2008	-	-	39,778	5,966
17 December 2008	-	-	500,000	55,000
24 February 2009	-	-	362,959	54,444
6 April 2009	-	-	420,000	42,000
30 June 2009	-	-	20,000	2,000
30 June 2009	-	-	909,091	100,000
10 August 2009	5,593,884	615,326	-	-
10 August 2009	357,041	53,555	-	-
18 August 2009	5,555,556	1,000,000	-	-
25 August 2009	4,988,637	548,750	-	-
22 October 2009	2,000,000	220,000	-	-
30 November 2009	230,000	28,500	-	-
Transaction costs	-	(37,554)	-	(37,799)
Balance at end of reporting period	<u>186,530,580</u>	<u>29,282,929</u>	<u>167,805,462</u>	<u>26,854,352</u>

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NOTE 5: SHARE CAPITAL

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's 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 change in contingent liabilities since the last annual reporting date.

NOTE 7: EVENTS SUBSEQUENT TO REPORTING DATE

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

NOTE 8: GOING CONCERN

The consolidated entity recorded an operating loss, after eliminating non-controlling interests, of \$847,324 for the six months ended 31 December 2009 (31 December 2008: \$1,537,548).

The directors are satisfied that it is appropriate to report that the company is a going concern based on the following reasons:

- Its ability to increase sales from current levels in key markets (Australia, Europe and UK, North America, China and other parts of Asia);
- The ability of management to control costs; and
- The ability to raise additional funds from the exercise of options in August 2010 or issue of new shares if required.

The company has made considerable progress over the last six months in converting its pipeline of projects into orders. Performance in the current period is indicative of the increased confidence in the Phoslock product, the group's increasing ability to turn pipeline into sales as well as the group's ability to leverage off its key markets.

In support of the ongoing liquidity of the group, management have prepared forecasts for the 12 month period ending February 2011. These forecasts assume the company will be successful in the following:

- Realising \$3.4 million in sales over the next 12 months. At the date of this report the company currently has approximately \$1.1 million of confirmed orders during this period;
- Raising of additional capital of \$1.4 million from the conversion of 11 cps options on or before 10 August 2010;
- Purchasing approx \$1.2 million of inventory from its Chinese Joint Venture;
- Operating costs being maintained at consistent levels of approx \$200,000 per month.

On the assumption that the company completes \$3.4 million of sales, raising option revenue of \$1.4 million, spends \$2.4 million on operating costs and \$1.2 million on finished goods (Phoslock granules) over the next 12 months, the company is forecast to have a cash balance as at 28 February, 2011 of approx \$2 million.

Should the company only sell 50% of the forecast sales (\$1.7m) and no option revenue is received, the company advises that it will reduce purchase of finished goods from its factory JV from \$1.2million to approx A\$0.1 million (as the company already holds 1,100 tons of finished goods) and reduce operating costs by \$0.3 million (as some of these costs would only be incurred as a result of a sale proceeding), the forecast cash balance as at 28 February, 2011 would be approx \$0.5 million.


The financial flexibility of the company and its ability to operate as a Going Concern is heavily dependent on the company's ability to convert projects in its pipeline in sales.

Phoslock Water Solutions Limited
and Controlled Entities
ABN 88 099 555 290
Interim Financial Report

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 5 to 15 are in accordance with the *Corporations Act 2001*, including:
 - a. complying with Accounting Standard AASB 134: Interim Financial Reporting; and
 - b. giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of 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.

Director



Robert Schuitema

Dated this 26th day of February, 2010

INDEPENDENT AUDITOR'S REVIEW REPORT**TO THE MEMBERS OF 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 statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of Phoslock Water Solutions Limited 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 control 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 consolidated entity's financial position as at 31 December 2009 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 Phoslock Water Solutions Limited, 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.



WHK Pty Ltd trading as WHK Horwath Brisbane is a member of Crowe Horwath International Association, a Swiss Verein.
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Member Crowe Horwath International**WHK Horwath Brisbane****Level 16, WHK Horwath Centre 120 Edward Street
Brisbane Queensland 4000 Australia****GPO Box 736 Brisbane Queensland 4001 Australia****Telephone +61 7 3233 3555 Facsimile +61 7 3210 6183****Email info.bri@whkhorwath.com.au www.whkhorwath.com.au****A WHK Group firm**

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 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.

WHK Horwath

WHK HORWATH

VM de Waal

**VM DE WAAL
PRINCIPAL**

Signed at Brisbane, 26 February 2010

Liability limited by a scheme approved under Professional Standards Legislation other than for the acts or omissions of financial services licensees.



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