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**PHOSLOCK WATER SOLUTIONS LIMITED
and CONTROLLED ENTITIES
ABN 88 099 555 290
CONSOLIDATED FINANCIAL REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008**

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ABN 88 099 555 290
CONSOLIDATED FINANCIAL REPORT**

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**PHOSLOCK WATER SOLUTIONS LTD
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ABN 88 099 555 290**

DIRECTORS' REPORT

Your directors submit the financial report of the economic entity for the half-year ended 31 December 2008.

Directors

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

Robert Schuitema
Dr David Garman
The Hon. Pam Allan
Russell Brown (resigned 27 November 2008)

Operating Results

The consolidated loss of the economic entity for the half year after providing for income tax was \$(1,537,548) ; 2007 loss \$(1,691,293)

Review of Operations

Total revenues of \$197,502 was an decrease of 30% on the previous half year. Delays in converting the significant pipeline of orders affected both revenues and profitability in the half-year ended 31 December 2008. Conversion of key projects in 2009 is expected to generate a sharp increase in revenues and earnings for the year. The loss for the half year of \$1,537,548 is down 9% on the loss recorded in the previous half year . The reduced loss largely reflects the impact of cost containment strategies.

Auditor's Independence Declaration

The lead auditor's independence declaration under Section 307C of the Corporations Act is set out on page 2 and forms part of the Directors' report for the half year ended 31 December 2008.

Signed in accordance with a resolution of the Board of Directors on 26 February 2009.



Robert Schuitema
Managing Director

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

I declare that, to the best of my knowledge and belief, in relation to our review of Phoslock Water Solutions Limited for the half year ended 31 December 2008 there have been:

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

WHK Horwath

WHK HORWATH

Brisbane, 26 February 2009

VM de Waal

**VM de Waal
Principal**

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Total Financial Solutions



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**INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008**

	ECONOMIC ENTITY	
	31 DECEMBER 2008 \$	31 DECEMBER 2007 \$
Sales Revenue	173,859	239,790
Cost of Sales	<u>(115,076)</u>	<u>(135,930)</u>
Gross Profit	58,783	103,860
Other income	23,643	41,456
Distribution expenses	(37,187)	(18,369)
Administrative expenses	(443,814)	(465,484)
Depreciation and amortisation	(207,805)	(215,747)
Employee benefits expense	(774,941)	(971,268)
Marketing expenses	(138,593)	(116,160)
Occupancy expenses	(91,079)	(77,434)
Other expenses	(39,388)	(2,117)
Share of (losses) of associates	(85)	(2,969)
Finance costs	(62,624)	-
Profit/(loss) from ordinary activities before income tax	<u>(1,713,090)</u>	<u>(1,724,232)</u>
Income tax benefit	<u>96,646</u>	<u>28,018</u>
Loss from ordinary activities after income tax (expense)/benefit	(1,616,444)	(1,696,214)
Loss attributable to minority equity interests	78,896	4,921
Loss attributable to members of the parent entity	<u>(1,537,548)</u>	<u>(1,691,293)</u>
Basic earnings per share (cents per share)	(0.96)	(1.14)
Diluted earnings per share (cents per share)	(0.96)	(1.14)

The accompanying notes form part of this financial report.

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**PHOSLOCK WATER SOLUTIONS LTD
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**BALANCE SHEET
AS AT 31 DECEMBER 2008**

	ECONOMIC ENTITY	
	31 DECEMBER 2008 \$	30 JUNE 2008 \$
CURRENT ASSETS		
Cash and cash equivalents	1,264,900	349,926
Trade and other receivables	272,950	435,743
Inventories	1,119,411	1,107,560
Other current assets	59,299	75,425
TOTAL CURRENT ASSETS	<u>2,716,560</u>	<u>1,968,654</u>
NON-CURRENT ASSETS		
Trade and other receivables	365,000	400,000
Property, plant, and equipment	697,813	695,744
Intangible assets	2,983,502	3,109,102
Investments	30,721	30,806
TOTAL NON-CURRENT ASSETS	<u>4,077,036</u>	<u>4,235,652</u>
TOTAL ASSETS	<u>6,793,596</u>	<u>6,204,306</u>
CURRENT LIABILITIES		
Trade and other payables	517,127	495,031
Financial liabilities	1,050,639	908,521
Short term provisions	86,361	86,372
TOTAL CURRENT LIABILITIES	<u>1,654,127</u>	<u>1,489,924</u>
NON-CURRENT LIABILITIES		
Financial liabilities	137,102	26,239
Long term provisions	32,046	49,209
TOTAL NON-CURRENT LIABILITIES	<u>169,148</u>	<u>75,448</u>
TOTAL LIABILITIES	<u>1,823,275</u>	<u>1,565,372</u>
NET ASSETS	<u>4,970,321</u>	<u>4,638,934</u>
EQUITY		
Issued capital	26,659,868	24,977,235
Reserves	1,082,447	875,775
Accumulated losses	<u>(22,856,620)</u>	<u>(21,319,072)</u>
Parent entity interest	4,885,695	4,533,938
Monority equity interest	84,626	104,996
TOTAL EQUITY	<u>4,970,321</u>	<u>4,638,934</u>

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**STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008**

	Issued Share Capital \$	Accumulated Losses \$	Foreign Exchange Translation Reserve \$	Options Reserve \$	Minority Equity Interests \$	Total \$
Balance at 1.7.2008	24,977,235	(21,319,072)	(102,538)	978,313	104,996	4,638,934
Shares issued during the period	1,682,633	-	-	-	-	1,682,633
Loss attributable to members of the parent entity	-	(1,537,548)	-	-	-	(1,537,548)
Loss attributable to minority shareholders	-	-	-	-	(78,896)	(78,896)
Change in Reserves	-	-	178,232	28,440	58,526	265,198
Balance at 31.12.2008	<u>26,659,868</u>	<u>(22,856,620)</u>	<u>75,694</u>	<u>1,006,753</u>	<u>84,626</u>	<u>4,970,321</u>
Balance at 1.7.2007	24,458,037	(17,916,916)	(49,033)	913,625	152,331	7,558,044
Shares issued during the period	429,798	-	-	-	-	429,798
Loss attributable to members of the parent entity	-	(1,691,293)	-	-	-	(1,691,293)
Loss attributable to minority shareholders	-	-	-	-	(4,921)	(4,921)
Change in Reserves	-	-	(7,385)	48,533	(3,162)	37,986
Balance at 31.12.2007	<u>24,887,835</u>	<u>(19,608,209)</u>	<u>(56,418)</u>	<u>962,158</u>	<u>144,248</u>	<u>6,329,614</u>

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**CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008**

	ECONOMIC ENTITY	
	31 DECEMBER 2008	31 DECEMBER 2007
	Inflows (Outflows)	Inflows (Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES	\$	\$
Receipts from customers	363,467	260,659
Interest received	23,643	32,003
Payments to suppliers and employees	(1,417,452)	(2,076,955)
Finance costs	(2,623)	(1,235)
Other income	4,979	5,953
Tax (payments)/receipts	96,646	29,657
Net Cash used in operating activities	<u>(931,340)</u>	<u>(1,749,918)</u>
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Purchase of property, plant & equipment	(4,149)	(37,227)
Purchase of other non-current assets	(7,996)	(15,518)
Proceeds from sale of property, plant and equipment	57,830	11,707
Net Cash used in investing activities	<u>45,685</u>	<u>(41,038)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	1,641,800	435,100
Proceeds from issue of converting notes	100,000	-
Transaction costs	(33,839)	(5,302)
Borrowings raised/(repaid)	28,294	-
Net cash from finance activities	<u>1,736,255</u>	<u>429,798</u>
Net increase (decrease) in cash held	850,600	(1,361,158)
Cash at beginning of the financial period	349,610	2,172,976
Effect of exchange rates on cash holdings in foreign currencies	64,690	6,481
Cash at the end of the financial period	<u>1,264,900</u>	<u>818,299</u>

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**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008**

NOTE 1 - BASIS OF PREPARATION

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

The consolidated interim financial report does not include full disclosures of the type normally included in an annual financial report. It is recommended that the interim financial report be read in conjunction with the annual financial report for the year ended 30 June 2008 and any public announcements made by Phoslock Water Solutions Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

The consolidated interim financial report was authorised for issue by the directors on 26 February 2009.

NOTE 2 - CASH and CASH EQUIVALENTS

	31 December 2008	31 December 2007
Cash at Bank and on hand	\$ 454,900	\$ 720,614
Cash on Deposit	810,000	97,685
	<u>1,264,900</u>	<u>818,299</u>

NOTE 3 - SEGMENT INFORMATION

The Company operates wholly within the Environmental Technologies business segment.

NOTE 4 - PROPERTY, PLANT, EQUIPMENT and INTELLECTUAL PROPERTY

During the half year ended 31 December 2008 the Company acquired assets at a cost of \$4,149 (2007 \$37,227)

During the reporting period a number of small assets totalling \$57,830 (2007 \$11,707) were sold.

NOTE 5 - ISSUED CAPITAL

On the 12th August 2008 the Company issued 9,561,817 ordinary shares at \$0.11 to raise \$1,051,800 for working capital.

On the 19 August 2008 the Company issued 358,033 ordinary shares at \$0.15 for payment for interest on 12% Converting Notes and a further 39,781 ordinary shares on 20 October 2008

On the 16th October 2008 the Company issued 5,000,000 ordinary shares at \$0.11 raising \$550,000 for working capital.

On the 17th December 2008 the Company issued 500,000 ordinary shares at \$0.11 to PWS Executives to raise \$55,000.

NOTE 6 - CONTINGENT LIABILITIES

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

NOTE 7 - FORMATION OF PHOSLOCK EUROPE GMBH

On 5 August, 2008 the Company formed Phoslock Europe GmbH and assigned the exclusive license to sell and market Phoslock products in 12 European countries. The company has 60% of the equity in Phoslock Europe GmbH.

NOTE 8 - EVENTS SUBSEQUENT TO REPORTING DATE

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

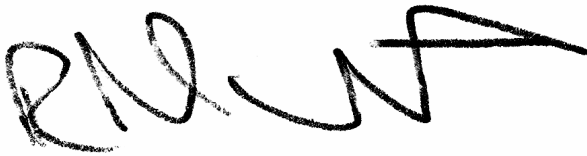
**PHOSLOCK WATER SOLUTIONS LTD
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DIRECTORS' DECLARATION

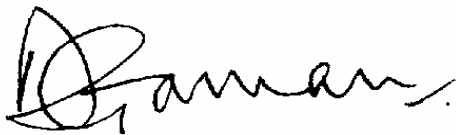
The directors of the company declare that:

- (a) the financial statements and notes set out on pages 3 to 7 are in accordance with the Corporations Act 2001; and:
- (i) comply with Accounting Standard AASB 134 : Interim Financial Reporting and the Corporations Regulations 2001; and
 - (ii) give a true and fair view of the financial position of the economic entity's financial position as at 31 December 2008 and its performance, as represented by the results of its operations and its cash flows, for the half-year ended on that date; and
- (b) in the directors opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors on 26 February 2009.



Robert Schuitema
Managing Director



Dr David Garman
Non Executive Chairman

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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 and controlled entities which comprises the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the period ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration." The consolidated entity comprises both Phoslock Water Solutions Limited and the entities it controlled during the period.

The Responsibility of the Directors for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standards 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 not 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 Phoslock Water Solutions Limited's financial position as at 31 December 2008 and its performance for the first half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Act 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 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 Accounting 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.

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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 significant matter that makes us believe that the half-year financial report of Phoslock Water Solutions Limited is not in accordance with the Corporations Act 2001 including:

- (a) giving a true and fair view of the company's financial position as at 31 December 2008 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.



WHK Horwath



VM de Waal
Principal

Signed at Brisbane on 26 February 2009

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PHOSLOCK WATER SOLUTIONS LTD

(ABN 88 099 555 290)

Appendix 4D

Half year report

Period Ending 31 December 2008

The following information constitutes the half year report required under Listing Rule 4.2A and should be read in conjunction with the annual financial report for the period ended 30 June 2008.

Results for announcement to the market:

				<u>\$A'000</u>
Revenues from ordinary activities	down	30%	to	198
Profit (loss) from ordinary activities after tax attributable to members	down	9%	to	(1,537)
Net profit (loss) for the period attributable to members	down	9%	to	(1,537)

The company does not propose to pay any dividends for the half year ended 31 December 2008.