For immediate release **6 August 2013**

HALOSOURCE

(“HaloSource” or the “Company”)

Interim results for the six months ended 30 June 2013

HaloSource, Inc. (HALO.LN), the global clean water technology company trading on London’s AIM, today announces its unaudited interim results for the six months ended 30 June 2013.

Strong positive traction has been achieved following the execution of the new strategy last year, resulting in a significant increase in volume of orders received half-on-half.

Financial Highlights

- Overall revenue for H1 2013 increased to US$5.9 million, up 2% from H1 2012:
    - Water Purification revenues grew to US$0.9 million, an increase of 26% from H1 2012
    - Environmental Water Remediation revenues grew to US$0.9 million, up 19% from H1 2012
    - Recreational Water revenues were US$4.0 million, 4% lower compared with H1 2012
    - Antimicrobial Coatings revenue was US$0.1 million, versus US$0.2 million in H1 2012
- Total orders received for H1 2013 (representing shipped and open orders) increased substantially to US$7.2 million, up 24% from H1 2012:
    - The Company received Water Purification orders totaling US$1.5 million and carried over unshipped orders for this segment totaling US$0.6 million into H2 2013 (nil in 2012), representing half-on-half growth in total orders received of 117%;
    - The Company received Recreational Water orders totaling US$4.6 million and carried over unshipped orders for this segment totaling US$0.6 million into H2 2013 (US$0.05 million in 2012), representing half-on-half growth in total orders received of 11%.
    - Orders received for the Company’s Environmental Water Remediation and Anti-microbial Coatings segments, were US$1.0 million and US$0.1 million, respectively, of which substantially all products were shipped during the first half.
- The Company ended the period with US$19.5 million in cash, comprising US$2.0 million of cash and cash equivalents, US$15.6 million of short-term investments and US$1.9 million of restricted cash, as compared with US$26.8 million in total as of 31 December 2012.

Martin Coles, CEO, commented, “These are very exciting times for our Company and we are delighted at the strong growth achieved in confirmed orders during the first half of 2013 which continues to validate the strength of the strategic focus we put in place early in 2012.

The extent and quality of our backlog represents a significant shift from the same period in 2012 and earlier when this was typically less than US$0.1 million, thus reinforcing the global demand which is building for our innovative suite of water purification technologies.”

Operational Highlights

In summary:

- Water Purification momentum is building, supported by late first half market launches with Perfect in China and Tupperware in India; both countries are multi-billion dollar markets for water purification devices. Further introductions are expected in India, China and South America during the second half of 2013.
- Our Environmental Water Remediation products received approvals from both the Florida Department of Transportation and the Washington Department of Ecology during H1 2013, significant milestones in the ratification of our biopolymer technology as “cleaner and greener” and more effective than other synthetic polymers sold in this industry. We are optimistic that these regulatory approvals will serve as a validation to our customers in support of the efficacy and environmentally friendly nature of our products, and ultimately be a differentiating factor in our customers’ buying decisions.
- In Recreational Water, SeaKlear® Mighty Pods™ products have been very well received in their first season in the swimming pool marketplace during H1 2013, driving incremental revenue and clearly demonstrating the impact that consumer led innovation can have in this industry.

Martin Coles, President and Chief Executive of HaloSource, said:
“We are delighted at the progress we are seeing in our Water Purification business which is a real testimony to the strength of our class leading intellectual property, the depth and commitment of our new partnerships and the translation of deal flow into cash flow, all of which we will now see accelerating our improving performance for the balance of the year and beyond.

New products powered by HaloPure® media have been launched by key partners in both India and China and our relentless focus in getting the right partners and the right products in place is now taking shape in the form of tangible results. We are very excited about our progress and the outlook for our Water Purification business.

We are equally excited about the performance of our Environmental Water Remediation and Recreational Water businesses with H1 order growth in both segments clearly demonstrating the value of consumer and end user led innovation. The strong retail and consumer reception of our new SeaKlear® Mighty Pods™ product line is a clear example of this.

We are confident that continuing to focus on the four strategic pillars of relentless consumer/end user led innovation, deep consumer/end user understanding, building our commercial capacity in local markets and deep strategic partnering with key industry players is vital to long term, sustainable growth and profitability.”

Financial and Operational Overview

The Company is very encouraged with the significant increase in total orders received (representing shipped and open orders) during H1 2013, which equated to US$7.2 million and 24% growth over orders received in the same period a year ago. Within this, Water Purification orders increased by 117% from H1 2012, largely due to customer product launches by Perfect in China and Tupperware in India.

Of the US$7.2 million of orders received, the Company recognized revenue on products shipped totaling US$5.9 million during the period for revenue growth of 2% in H1 2013, compared with US$5.8 million in H1 2012. The Company expects all orders received, but not shipped during H1 2013, to be shipped during the third quarter of 2013.

In terms of revenue recognized for H1 2013, the Company experienced revenue growth in Water Purification (HaloPure®) and Environmental Water Remediation (HaloKlear™). Water Purification revenue was up 26% to US$0.9 million from H1 2012 (US$0.7 million) with the majority of this growth coming in the latter part of the period as product orders began from both Tupperware and Perfect. The Company also is continuing its commercial progress with one of the world's largest consumer products companies for the deployment of HaloPure-powered gravity water dispensers in China. Environmental Water Remediation revenues were up 19% to US$0.9 million from H1 2012 (US$0.8 million) as we continue to grow the business both domestically and internationally by expanding the partnerships, reach and application established during 2012 and extended during the first half.

Revenues from Recreational Water products of US$4.0 million were 4% lower compared with H1 2012 revenue of US$4.1 million given the late start to the 2013 pool season in the U.S. driven by unseasonably cool weather in many parts of the country. Orders received in Recreational Water during H1 2013 however, totaled US$4.6 million, an increase of 11% over H1 2012 orders of US$4.1 million, driven in large part by the Company's new SeaKlear® Mighty Pods™ products which were launched in November 2012. Since then, the Company has received orders for nearly 400,000 pods, the majority of which have shipped during H1 2013. The Company will continue to focus on innovation within the industry and consumer requirements.

Gross margin was 37%, up from 34% for the same period last year. The Company is beginning to see the benefit in the current year of reducing its domestic manufacturing footprint as it relates to its overall gross margins as well as increased economies of scale related to higher volumes associated with its Water Purification segment.

Operating expenses totaled US$9.0 million, an increase over the prior year of 5% driven largely by increased personnel costs as the Company continues to add strength and expertise to its management team by recruiting new and experienced employees from companies such as Starbucks, Nike, and Coors, among others, as well as grow its consumer facing marketing and sales teams. Additionally, the Company continues to make investments in research and development, which is expected to drive short and long term revenue growth. Finally, the Company has continued to incur costs associated with its ongoing litigation matter (since December 2011) with Molycorp Minerals LLC in relation to claims of breach of contract and control of certain patent applications, against which the Company continues to defend itself. The Company will continue to focus on controlling its costs and prioritising spending on the segments that support its strategic initiatives.

The consolidated net loss was US$7.0 million for the period, up from a net loss of US$6.6 million for the same period a year ago, driven largely by the increase in operating expenses as detailed above.

The Company ended the period with US$19.5 million of cash and cash equivalents, short-term investments and restricted cash, of which US$1.9 million is restricted in its use, as compared to US$26.8 million in total as of December 31, 2012. Cash used in operations for H1 2013 was US$7.1 million, up from US$6.1 million during the same period in 2012 resulting from an increase in the operating expenses incurred during the period as well as increased investments in working capital to support revenue growth in both Water Purification and Environmental Water Remediation. The Company expects to reduce cash burn significantly in the second half of 2013 with the intention of achieving cash flow break even in the near future.

People

The Company's headcount at 30 June 2013 was 124, versus 118 at 30 June 2012, reflecting the focus on shifting current and new resources into revenue generating activities particularly in the field teams. We continue to prioritise having the right people in place to support our commercial activities and quickly predict and adapt to evolving consumer demands and technology innovation.

The Company expects headcount to grow slightly during the rest of the year, focused on lead generation and strategic partner management as we continue to grow aggressively our business across our 3 primary strategic segments.

Outlook

The Company continues to build strong momentum behind its core operating segments as results begin to materialise from the focus of its strategic plan.

We believe the Water Purification business is poised for significant growth as major partners are actively expanding sales activity for new, HaloPure® powered, water purification devices in emerging markets.

We expect continuing rapid growth in our Environmental Water Remediation segment as existing and new customers experience the cost and performance benefits of our unique green solutions in an increasingly regulated sector.

We will continue to drive innovative new products in the Recreational Water business building on our recently introduced line of SeaKlear® Mighty Pods™ products and we see increasing demand for these products both domestically and internationally as customers and consumers increasingly see the benefit of convenience and efficacy brought by this easy to deploy form factor.

We are encouraged by the progress we are seeing in all aspects of our business. The success of our HaloPure® technology in the Water Purification business is clear validation of the strength of our class leading intellectual property, the depth and commitment of our new partnerships and the translation of deal flow into cash flow, all of which we will now see accelerating our performance for the balance of the year and beyond. Similarly, the rapid adoption of our HaloKlear™ biopolymer offering for Environmental Water Remediation underscores the increasing importance being placed in green solutions as compared with the traditional deployment of synthetic and potentially toxic chemistry in dealing with many forms of turbidity in the Industrial segment.

We are also encouraged by the performance of our SeaKlear® line in a challenging market and our Mighty Pods™ product success provides clear proof that consumer driven innovation can be well accepted in this industry.

We are confident that our relentless focus on innovation across all segments will yield robust, sustainable growth in revenue, margins and profitability.

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Notes to Editors

About HaloSource

HaloSource is a global clean water technology company, headquartered near Seattle in Bothell, WA, U.S.A. with subsidiaries in India and China and operations in other markets around the world through its relationships with distributors and other third party relationships. HaloSource is committed to relentless innovation, industry-leading products and ongoing support for water-related philanthropy. The Company's proprietary technologies for drinking and recreational water, textile coatings, and environmentally friendly wastewater recycling, enable our partners to rid the world's water of impurities and return it responsibly to the earth.

- HaloPure® media is the first drinking water technology in 30 years to be registered by the United States Environmental Protection Agency ("USEPA"), China's Ministry of Health ("MOH") and to have met, or exceeded, all appropriate Brazilian standards of the National Institute of Metrology, Standardization and Industrial Quality (INMETRO). These regulatory bodies are widely recognized as upholding the world's most stringent performance requirements for water purification.
- Our Environmental Water Remediation products received approvals from both the Florida Department of Transportation and the Washington Department of Ecology during H1 2013, significant milestones in the ratification of our biopolymer technology as "cleaner and greener" and more effective than other synthetic polymers sold in this industry.
- SeaKlear® Pool and Spa treatment products bring both natural bio-polymers and antimicrobial applications for treating recreational water.
- HaloShield® products consist of antimicrobial coatings solutions that employ unique technology that binds chlorine-based bleach to textiles such as sheets, lab coats and towels for use as a non-toxic biocide.

HaloSource, Inc. Financial Statements and Notes Thereto

HaloSource, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Loss

(US$000's, except shares in 000's)	**Six months ended June 30, 2013 (unaudited)**	Six months ended June 30, 2012 (unaudited)	Year ended December 31, 2012 (audited)
Revenue - net	**$ 5,882**	$ 5,781	$ 13,271
Cost of goods sold	**3,696**	3,813	8,900
Gross profit	**2,186**	1,968	4,371
Operating expenses			
Research and development	**1,578**	1,292	2,541
Selling, general, and administrative	**7,462**	7,310	14,087
Total operating expenses	**9,040**	8,602	16,628
Operating loss	**(6,854)**	(6,634)	(12,257)
Other income (expense)			
Interest income (expense), net	**6**	(5)	(69)
Other (loss) income, net	**(9)**	(14)	2
Foreign exchange (loss) gain	**(150)**	97	(39)
Total other (expense) income, net	**(153)**	78	(106)
Loss before income taxes	**(7,007)**	(6,556)	(12,363)
Income taxes	**(6)**	-	(38)
Net loss	**(7,013)**	(6,556)	(12,401)
Other comprehensive income (loss)			
Unrealized (loss) gain on available-for-sale investments	**(33)**	37	16
Reclassification adjustment of net realized loss on available-for-sale investments included in net loss	**(13)**	(16)	(18)
Foreign currency translation adjustments	**88**	69	15
Other comprehensive income	**42**	90	13
Comprehensive loss	**$ (6,971)**	$ (6,466)	$ (12,388)
Basic and diluted net loss per share	**$ (0.04)**	$ (0.09)	$ (0.14)
Shares used to compute basic and diluted loss per share (000's)	**156,301**	75,592	91,853

See accompanying notes to condensed consolidated financial statements.

HaloSource, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(US$000's)	**As of June 30, 2013 (unaudited)**	As of June 30, 2012 (unaudited)	As of December 31, 2012 (audited)
ASSETS			
Current assets			
Cash and cash equivalents	**$ 2,018**	$ 2,533	$ 15,635
Restricted cash	**1,886**	2,160	1,871
Short term investments	**15,609**	3,333	9,329
Accounts receivable, less allowance for doubtful accounts of $16, $18, and $13, respectively	**3,521**	2,236	3,582
Inventories — net	**4,194**	3,925	3,702
Prepaid expenses and other current assets	**1,248**	1,145	1,090
Total current assets	**28,476**	15,332	35,209
Property and equipment, net	**3,699**	3,934	3,697
Goodwill	**2,180**	2,180	2,180
Other intangible assets, net	**907**	1,031	968
Deposits	**277**	261	264
Total Assets	**$ 35,539**	$ 22,738	$ 42,318
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable	**$ 2,109**	$ 1,490	$ 2,085
Accrued expenses and other current liabilities	**781**	320	543
Salaries and benefits payable	**324**	623	522
Current portion of debt and capital lease obligations	**1,137**	1,241	1,252
Total current liabilities	**4,351**	3,674	4,402
Long-term portion of debt and capital lease obligations	**54**	74	64
Deferred rent	**1,140**	1,123	1,172
Deferred tax liability	**70**	37	74
Total liabilities	**5,615**	4,908	5,712
Stockholders' equity			
Common stock, no par value	**130,386**	105,399	130,097
Accumulated other comprehensive income	**46**	81	4
Accumulated deficit	**(100,508)**	(87,650)	(93,495)
Total stockholders' equity	**29,924**	17,830	36,606
Total liabilities and stockholders' equity	**$ 35,539**	$ 22,738	$ 42,318

See accompanying notes to condensed consolidated financial statements.

HaloSource, Inc. and Subsidiaries

Condensed Consolidated Statements of Stockholders' Equity

(US$000's, except shares in 000's)	Common Stock Shares	Common Stock Amount	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
Balance, January 1, 2012	74,451	$ 104,785	$ (9)	$ (81,094)	$ 23,682
Exercise of common stock options	1,568	255	-	-	255
Issuance of shares upon vesting of restricted stock	174	-	-	-	-
Issuance of unvested restricted stock	-	112	-		112
Share-based compensation	-	553	-	-	553
Shares issued, net of offering costs	80,000	24,392	-	-	24,392
Other comprehensive income	-	-	13	-	13
Net loss	-	-	-	(12,401)	(12,401)
Balance, December 31, 2012	156,193	130,097	4	(93,495)	36,606
Exercise of common stock options	8	1	-	-	1
Issuance of shares upon vesting of restricted stock	182	-	-	-	-
Share-based compensation	-	288	-	-	288
Other comprehensive income	-	-	42	-	42
Net loss	-	-	-	(7,013)	(7,013)
Balance, June 30, 2013 (unaudited)	**156,383**	**$ 130,386**	**$ 46**	**$ (100,508)**	**$ 29,924**

See accompanying notes to condensed consolidated financial statements.

HaloSource, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows

(US$000's)	**Six months ended June 30, 2013 (unaudited)**	Six months ended June 30, 2012 (unaudited)	Year ended December 31, 2012 (audited)
Operating activities			
Net loss	**$ (7,013)**	$ (6,556)	$ (12,401)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	**533**	493	1094
Allowance for inventory, sales returns, and bad debts	**88**	112	(55)
Share-based compensation	**288**	369	665
Realized loss on sale of short-term investments	**13**	16	1
Loss on disposal of property, equipment and other assets	**-**	-	18
Deferred income taxes	**(4)**	-	37
Changes in operating assets and liabilities:			
Accounts receivable	**12**	312	(1,020)
Inventories	**(674)**	64	491
Prepaid expenses and other assets	**(217)**	(70)	(3)
Accounts payable	**129**	(459)	296
Accrued expenses and other current liabilities	**31**	(249)	(125)
Salaries and benefits payable	**(168)**	(275)	(343)
Deferred rent	**(87)**	110	177
Net cash used in operating activities	**(7,069)**	(6,133)	(11,168)
Cash flows from investing activities			
Purchase of property and equipment	**(223)**	(552)	(991)
Purchase of short-term investments	**(8,078)**	(30)	(7,552)
Sale of short-term investments	**1,740**	7,000	8,500
Increase in restricted cash	**(16)**	(317)	(25)
Net cash (used in) provided by investing activities	**(6,577)**	6,101	(68)
Cash flows from financing activities			
Proceeds from public offering, net of offering costs	**-**	-	24,392
Borrowings under short-term debt	**64**	1,240	1,240
Repayments of debt and capital lease obligations	**(25)**	(36)	(111)
Proceeds from exercise of stock options and warrants	**1**	91	100
Net cash provided by financing activities	**40**	1,295	25,621
Effect of exchange rate changes on cash	**(11)**	5	(15)
Net (decrease) increase in cash and cash equivalents	**(13,617)**	1,268	14,370
Cash and cash equivalents, beginning of period	**15,635**	1,265	1,265
Cash and cash equivalents, end of period	**$ 2,018**	$ 2,533	$ 15,635
Supplemental disclosures of noncash investing and financing activities:			
Increase in accrued property and equipment purchases	**$ 295**	$ 254	$ 93
Increase in property and equipment from tenant improvement allowance	**-**	913	913
Reduction in salaries and benefits payable from exercise of stock options	**-**	(154)	-
Proceeds from exercise of stock options reduced by severance payable	**-**	-	155

See accompanying notes to condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements

1. General information

HaloSource, Inc. and its subsidiaries (together, the “Company” or “HaloSource”) are a global clean water technology company, headquartered near Seattle in Bothell, WA, U.S.A. with subsidiaries in India and China and operations in other markets around the world through its relationships with distributors and other third parties. HaloSource is committed to relentless innovation, industry-leading products and ongoing support for water-related philanthropy. The Company’s proprietary technologies for drinking and recreational water, textile coatings, and environmentally friendly wastewater recycling, enable our partners to rid the world’s water of impurities and return it responsibly to the earth. HaloSource markets its products under its brand names of HaloPure®, HaloShield, SeaKlear®, AquaPill, PoolMark, HaloKlear™, StormKlear and Mighty Pods™.

2. Basis of preparation

The condensed consolidated financial statements include the accounts of HaloSource and its wholly owned subsidiaries: HaloSource International, Inc., HaloSource Asia, Inc., HaloSource Hong Kong Ltd., HaloSource China Inc., SeaKlear® Pool Pills LLC, HaloSource Technologies Pvt. Ltd., HaloSource Water Purification Technology (Shanghai) Co. Ltd., HASO Corporation, and HaloSource Water Purification Importacoes Ltda. Intercompany transactions and balances have been eliminated.

The principal accounting policies have been applied consistently throughout the period in the preparation of these financial statements. In the opinion of management, all adjustments necessary for the fair statement of the financial position, results of operations and cash flows for the periods have been included and are of a normal, recurring nature.

The condensed consolidated financial information for the six month periods ended June 30, 2012 and 2013 has been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) which is appropriate given the Company is incorporated in the State of Washington in the United States. References to U.S. GAAP issued by the Financial Accounting Standards Board (“FASB”) in the Company’s notes to its condensed consolidated financial statements are to the FASB Accounting Standards Codification, sometimes referred to as the “Codification” or “ASC”. The condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2012, which have also been prepared in accordance with U.S. GAAP and were made available on March 26, 2013. The financial information for the six month periods ended June 30, 2013 and June 30, 2012 is unaudited.

Liquidity and capital resources

The Company has generally incurred net losses and negative operating cash flows since inception, and for the period ended June 30, 2013, the Company had an accumulated deficit of approximately $100.5 million. For the six months ended June 30, 2013, the Company’s net loss was $7.0 million and cash used in operating activities was $7.1 million.

During the fourth quarter of 2012, the Company successfully raised over $25.0 million of new funding in an offering of its common stock. As of June 30, 2013, the Company has $2.0 million of unrestricted cash and cash equivalents, $15.6 million of unrestricted short term investments, and $1.9 million of restricted cash. Management believes the Company’s current funding will be sufficient to finance its operations and strategic growth for at least one year from the date of this report.

Use of estimates

The preparation of condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates. Estimates include the allowance for doubtful accounts, sales returns allowances, inventory obsolescence, share-based compensation, and impairment evaluations for goodwill and long-lived assets.

3. Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended December 31, 2012, except as described below.

Recent accounting pronouncements affecting the Company

In February 2013, the FASB issued Accounting Standards Update ("ASU") 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Classified out of Accumulated Other Comprehensive Income*, to resolve the competing concerns of preparers and users regarding the most cost-effective and user beneficial way to report information about adjustments for items reclassified out of accumulated other comprehensive income. The Board decided to provide reporting entities with a choice to report the effect of reclassifications on the face of the statement where net income or loss is presented, or in the footnotes to the financial statements. The Company adopted ASU 2013-02 beginning January 1, 2013 and has elected to include this information on the face of its unaudited condensed consolidated statement of comprehensive loss.

4. Commitments and contingencies

Litigation and other contingencies

On December 2, 2011, the Company was named as a defendant in a lawsuit, captioned Molycorp Minerals, LLC v. HaloSource, Inc., in the United States District Court for the District of Colorado. The complaint alleges that the Company breached certain provisions contained in non-disclosure agreements entered into in both 2009 and 2010, made fraudulent representations in the 2010 non-disclosure agreement, and misappropriated confidential information of the plaintiff. The plaintiff seeks injunctions enjoining the Company from the alleged breaches of contract and control over certain patent applications, damages in an unspecified amount, and a declaration of ownership by the plaintiff in certain patent applications filed by the Company. In April 2012, the Company filed a counterclaim in connection with the lawsuit alleging Molycorp Minerals, LLC breached certain provisions of and made fraudulent representations contained in the 2010 non-disclosure agreement. The Company seeks injunctions enjoining Molycorp Minerals, LLC from the alleged breaches of contract and control over a certain patent application, damages in an unspecified amount, and a declaration of ownership by the Company in a certain patent application filed by Molycorp Minerals, LLC. As of June 30, 2013, the litigation is still pending. The Company believes the lawsuit against it is without merit and intends to defend against it vigorously.

Other than the matter noted above, as of June 30, 2013 and through the date this report was available to be issued, the Company was not involved in any other material pending litigation, claims or assessments.

Operating and capital leases

The Company has entered into operating lease agreements for its various office and manufacturing facilities worldwide and capital lease agreements for certain equipment. These leases are in effect through 2023. During the six months ended June 30, 2013, the Company entered into new building leases, accounted for as operating leases, for its new pilot manufacturing and research and development facility in Bothell, Washington, and its manufacturing facility in Shanghai, China. In addition, the Company has operating leases for its headquarters office facilities in Bothell, Washington, as well as an additional sales office in Shanghai, China and its manufacturing facility in Bangalore, India.

The new lease for the Company's pilot manufacturing facility in Bothell, Washington will replace the existing land and building leases for its manufacturing location previously in Raymond, Washington.

Future minimum rental payments under capital lease obligations and operating leases as of June 30, 2013, are as follows:

Years ending December 31,	Capital US$000	Operating US$000
2013 (remainder)	$ 10	$ 510
2014	19	829
2015	19	839
2016	19	668
2017	6	655
Thereafter	-	3,303
Total future minimum lease payments	73	$ 6,804
Less current portion	(19)	
Total long-term portion of capital lease obligation	$ 54	

Total rent expense under operating lease agreements for the six months ended June 30, 2013 and 2012 and the year ended December 31, 2012, was $423,000, $454,000 and $893,000, respectively.

5. Restricted cash

Restricted cash primarily represents cash collateral used to secure working capital borrowing needs related to operations of the Company's foreign subsidiaries. In April 2011, the Company established a working capital line of credit arrangement through Axis Bank in India. In consideration for establishing this working capital line of credit with Axis Bank, the Company entered a Sanction of Credit Facilities Agreement with Axis Bank to secure all borrowings under this line of credit. As such, the Company established a standby letter of credit with Wells Fargo Bank NA in which the Company has provided cash collateral to secure all borrowings by its foreign subsidiary under the working capital line of credit. The line of credit with Axis Bank allows for borrowings up to 70,000,000 Indian Rupees ("Rs."), or approximately $1,176,000 as of June 30, 2013. As of June 30, 2013, borrowings under this line of credit totaled Rs. 66,521,000, or approximately $1,118,000.

As of June 30, 2013, the Company had $1,886,000 in restricted cash, of which $1,551,000 represents the minimum amount of secured borrowings under the Sanction of Credit Facilities Agreement with Axis Bank. The Company maintains the restricted cash holdings in money market funds, or other short duration investment options, as allowed under the Security Agreement. See further discussion of the Axis Bank line of credit in Note 13 below.

The remaining balance of restricted cash of $335,000 represents required cash collateral held by Wells Fargo NA for potential forward exchange contract settlement exposure as discussed in Note 14 below.

6. Segment reporting

The Company measures the results of its reportable segments based on revenue and gross profit. The Company does not allocate operating expenses, income taxes or interest income (expense) to the reportable business units for purposes of reporting to the chief operating decision maker.

The Company's operating segments are: Water Purification, Recreational Water, Environmental Water Remediation, and Anti-microbial Coatings. Information on reportable segments and a reconciliation to condensed consolidated net loss for the six-month periods ended June 30, 2013 and 2012 and the year ended December 31, 2012 are presented below. Also presented below are total assets by operating segment as of June 30, 2013 and 2012 and December 31, 2012. The Company does not report to the chief operating decision maker its capital expenditures or assets for the Recreational Water or Environmental Water segments and does not assign intangible assets to the segments.

Six months ended June 30, 2013

(US $000's)	Recreational Water	Environmental Water	Water Purification	Antimicrobial Coatings	Unallocated	Consolidated
Revenue	$ 3,961	$ 949	$ 890	$ 82	$ -	$ 5,882
Gross profit (loss)	1,895	244	(19)	66	-	2,186
Operating expenses	-	-	-	-	(9,040)	(9,040)
Interest income, net	-	-	-	-	6	6
Other expenses, net	-	-	-	-	(165)	(165)
Net loss	-	-	-	-	-	$ (7,013)
Assets	-	-	4,813	3	30,723	$ 35,539

Six months ended June 30, 2012

(US $000's)	Recreational Water	Environmental Water	Water Purification	Antimicrobial Coatings	Unallocated	Consolidated
Revenue	$ 4,117	$ 800	$ 706	$ 158	$ -	$ 5,781
Gross profit (loss)	1,875	296	(304)	101	-	1,968
Operating expenses	-	-	-	-	(8,602)	(8,602)
Interest expense, net	-	-	-	-	(5)	(5)
Other income, net	-	-	-	-	83	83
Net loss	-	-	-	-	-	$ (6,556)
Assets	-	-	5,041	55	17,642	$ 22,738

Year ended December 31, 2012

(US $000's)	Recreational Water	Environmental Water	Water Purification	Antimicrobial Coatings	Unallocated	Consolidated
Revenue	$ 8,809	$ 2,099	$ 2,149	$ 214	$ -	$ 13,271
Gross profit (loss)	3,681	866	(283)	107	-	4,371
Operating expenses	-	-	-	-	(16,628)	(16,628)
Interest expense, net	-	-	-	-	(69)	(69)
Other expenses, net	-	-	-	-	(37)	(37)
Income taxes	-	-	-	-	(38)	(38)
Net loss	-	-	-	-	-	$ (12,401)
Assets	-	-	6,542	$ 31	35,745	$ 42,318

7. Income taxes

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

During the six month periods ended June 30, 2013 and 2012, the Company recorded no taxable profits. However for the year ended December 31, 2012, the Company recorded $38,000 of income tax expense related to amortization of certain components of goodwill which have a different basis for income tax purposes as well as income taxes related to states in which the Company operates.

Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and (b) operating losses and tax credit carry forwards.

ASC 740 requires that the tax benefit of net operating losses, temporary differences and credit carry forwards be recorded as an asset to the extent that management assesses that realization is “more likely than not”. Realization of the future tax benefits is dependent on the Company’s ability to generate sufficient taxable income within the carry forward period. Because of the Company’s recent history of operating losses, management believes that recognition of the deferred tax assets arising from the above-mentioned future tax benefits is currently not likely to be realized and, accordingly, has provided a full valuation allowance on its deferred tax assets.

Uncertain tax positions

The Company files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. As of June 30, 2013, the Company had no unrecognized tax benefits. Due to the Company’s operating loss carry forwards, the U.S. federal statute of limitations remains open for 1997 and onward.

8. Net loss per share

Basic net loss per share is computed using the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed using the weighted average number of common and potentially dilutive shares outstanding during the period. Potentially dilutive shares consist of the incremental common shares issuable upon conversion of the exercise of common stock options, restricted stock grants and warrants. The Company had a net loss for all periods presented herein; therefore, none of the options, restricted stock grants or warrants outstanding during each of the periods presented have been included in the computation of diluted loss per share as they were antidilutive. Total potentially dilutive shares of 6,426,000, 6,124,000, and 4,715,000 of common stock were excluded from the calculations of diluted loss per share for the six months ended June 30, 2013 and 2012 and the year ended December 31, 2012, respectively.

9. Inventories

Inventories at June 30, 2013 and 2012 and December 31, 2012, consist of the following:

(US $000’s)	**June 30, 2013**	June 30, 2012	December 31, 2012
Raw materials	**$ 2,642**	$ 2,529	$ 2,404
Finished goods	**1,552**	1,396	1,298
Inventories, net	**$ 4,194**	$ 3,925	$ 3,702

During the six month periods ended June 30, 2013 and 2012 and the year ended December 31, 2012, the Company recorded cost of goods sold of $89,000, $65,000, and $180,000, respectively, to reduce certain inventory items from their recorded cost to their estimated net realizable value. The inventory reported in the condensed consolidated balance sheets as of June, 30, 2013 and 2012 and December 31, 2012, is net of write-downs of inventory carrying values due to obsolescence of $573,000, $486,000 and $489,000, respectively.

10. Property and equipment

Property and equipment as of June 30, 2013 and 2012 and December 31, 2012 consist of the following:

(US $000's)	**June 30, 2013**	June 30, 2012	December 31, 2012
Manufacturing equipment	**$ 3,168**	$ 3,092	$ 3,172
Furniture and fixtures	**220**	220	223
Office equipment	**913**	645	883
Leasehold improvements	**1,986**	1,977	1,979
Construction in process	**434**	65	38
	6,721	5,999	6,295
Less accumulated depreciation and amortization	**(3,022)**	(2,065)	(2,598)
Property and equipment, net	**$ 3,699**	$ 3,934	$ 3,697

11. Related party transactions

During the six months ended June 30, 2013 and 2012 and during the year ended December 31, 2012, the Company was provided legal services, which are included in selling, general, and administrative expenses in the accompanying condensed consolidated statements of comprehensive loss, of $23,000, $36,000 and $100,000, respectively, from a firm whose partner is a stockholder of the Company and its former Secretary of the Board of Directors. The Company owed this firm $2,000, $11,000 and $3,000 at June 30, 2013 and 2012 and December 31, 2012, respectively. These amounts are included in accounts payable in the accompanying condensed consolidated balance sheets.

Additionally, during the six months ended June 30, 2013 and 2012 and during the year ended December 31, 2012, the Company also paid royalties for certain patent rights of $225,000, $225,000 and $450,000, respectively, to a university which held stock in the Company. Royalty payments are allocated between cost of goods sold, where there are identifiable product and sublicense revenues, and research and development expenses in the accompanying condensed consolidated statements of comprehensive loss. The Company had no outstanding accounts payable to the university at June 30, 2013 and 2012 or at December 31, 2012.

12. Business and credit concentration

For the six month periods ended June 30, 2013 and 2012, one of the Company's Recreational Water customers individually accounted for 17% and 12% of the Company's revenue, respectively, and the same customer accounted for 16% of the Company's revenue for the year ended December 31, 2012. Accounts receivable from this customer represented 17% and 16% of the total accounts receivable at June 30, 2013 and 2012, respectively, and represented 9% of the total accounts receivable at December 31, 2012.

Essentially all of the Company's revenue from its Water Purification segment is generated in emerging market countries, including India and China. During 2013 and 2012, the majority of Water Purification revenue was derived from two customers in India and one customer in China. In addition, essentially all raw materials and manufacturing facilities used in the Water Purification segment are sourced from, or located in, the same emerging market countries. These markets represent varying political and regulatory environments that can potentially affect Water Purification operations.

13. Foreign line of credit

In May 2011, Halosource Technologies Pvt. Ltd. ("Halosource Technologies"), a wholly-owned subsidiary of Halosource, Inc. which is located in Bangalore, India, entered into a Sanction of Credit Facilities Agreement with Axis Bank for a credit facility for up to an amount of Rs. 70,000,000, or approximately $1,176,000 at June 30, 2013. This line of credit is available for borrowings to support working capital needs of Halosource Technologies. Any borrowings under the line of credit will bear interest at Axis Bank's base-rate as determined under guidelines issued by the Reserve Bank of India, plus1.85%, or approximately 12% annually as of June 30, 2013. As of June 30, 2013, borrowings under this line of credit totaled Rs. 66,521,000, or approximately $1,118,000. The line of credit agreement expires in January 2014. As of June 30, 2013, the Company is in compliance with all terms and conditions of this line of credit and the line of credit is payable upon demand.

As a condition to borrowing under this line of credit, the Company is required to maintain a standby letter of credit through Wells Fargo Bank NA in an amount equivalent to 110% of the line of credit, or Rs. 77,000,000, approximately $1,294,000 at June 30, 2013; further, Wells Fargo Bank NA requires a restricted cash balance of 105.3% of the standby letter of credit. The Company has in turn restricted cash of $1,551,000 under the standby letter of credit to serve as collateral for the outstanding borrowings under the foreign line of credit.

14. Forward exchange contracts

The Company is exposed to foreign currency exchange-rate fluctuations in the normal course of its business, which the Company manages from time to time through the use of forward foreign exchange contracts. Forward foreign exchange contracts are used to hedge the impact of fluctuations of foreign exchange on certain assets or liabilities denominated in a currency other than the functional currency of the Company or its subsidiaries. The Company has chosen not to apply hedge accounting to these foreign exchange contracts. The Company uses forward foreign exchange contracts to mitigate risk and does not intend to engage in speculative transactions. The forward foreign exchange contracts are entered into by the Company and its subsidiaries primarily to hedge intercompany payables denominated primarily in Indian Rupee. These contracts do not contain any credit-risk-related contingent features. Further, the Company seeks to manage the counterparty risk associated with these forward foreign exchange contracts by limiting transactions to counterparties with which the Company has an established banking relationship. In addition, the contracts are limited to a time period of less than one year, generally three months or less.

For the six month periods ended June 30, 2013 and 2012, and during the year ended December 31, 2012, these forward foreign exchange contracts resulted in net realized gains (losses) of $67,000, $166,000, and ($47,000), respectively. The realized gains and losses were partially offset by realized and unrealized gains and losses on foreign denominated accounts receivable and foreign intercompany payables during the same periods. Realized gains and losses related to forward foreign exchange contracts are recorded in foreign exchange gain (loss) on the condensed consolidated statements of comprehensive loss and the assets and liabilities for these contracts are recorded in prepaid and other assets and accrued liabilities on the condensed consolidated balance sheets. As of June 30, 2013, the Company had two forward foreign exchange contracts outstanding with notional amounts of $2,678,000 and $2,826,000, and a combined fair value of ($97,000). As of June 30, 2012, the Company had one forward foreign exchange contract outstanding with a notional amount of $2,939,000, and a fair value of ($17,000). As of December 31, 2012, the Company had no outstanding forward foreign exchange contracts.

15. Stock options and share-based compensation

The Company recognizes compensation expense for awards of equity instruments to employees and directors based on the grant date fair value of those awards. For stock options, the Company utilizes the Black-Scholes option pricing model to estimate the fair value of employee stock-based compensation at the date of the grant, which requires the input of subjective assumptions including expected volatility, expected term, and a risk free interest rate. Because the Company has limited historical patterns, the expected life of stock options is based on the experience of similar publicly traded companies and management's judgment. The expected volatility is based on volatility from comparable options with similar publicly traded companies. The risk free interest rate is estimated using comparable published federal funds rates. Compensation expense is recognized over the requisite service period for those options expected to vest, net of a forfeiture rate.

In conjunction with the Company's 2013 Annual General Meeting which was held in April 2013, the Company included a proposal to its shareholders to increase the number of shares of Common Stock reserved for issuance under its 2010 Equity Incentive Plan (the "2010 Plan") by 5,000,000, from 3,000,000 to 8,000,000. The Company was successful in obtaining the required number of shareholder votes to approve this proposal. During the six month periods ended June 30, 2013 and 2012 and the twelve month period ended December 31, 2012, the Company issued stock options and restricted stock awards under its 2010 Plan totaling 1,988,000, 1,161,000 and 1,550,000, respectively. As of June 30, 2013, the Company had 3,339,000 shares available for issuance under the 2010 Plan.

The Company typically recognizes share-based compensation costs for an award on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards. For the six month periods ended June 30, 2013 and 2012 and the year ended December 31, 2012, the Company recorded stock based compensation expense of $288,000, $369,000 and $665,000, respectively. No income tax benefit was recognized in the condensed consolidated statements of comprehensive loss for share-based compensation arrangements.

16. Common stock

Total authorized common shares are 200,000,000. As of June 30, 2013, the Company has 156,383,000 issued and outstanding shares of common stock.

2012 offering of common stock

In October 2012, the Company announced the successful placing of 80,000,000 new common shares on the London Stock Exchange's Alternative Investment Market ("AIM"). The new common shares were issued at a price of 20 UK pence per share (equivalent to $0.32 US dollars per share at the time of the placing) on AIM on October 19, 2012. In connection with the offering, the Company sought certain waivers from its shareholders. The Articles of Incorporation of the Company provide that each shareholder would have a pre-emption right to purchase its pro-rata share of these new common shares, provided that the Pre-emptive Rights are subject to waiver by existing shareholders of the Company holding 75% of the Company's outstanding common shares. The Articles of Incorporation of the Company also provide that if any shareholder of the Company, together with its concert parties, acquires through an allotment of new common shares in a placing, sufficient shares to hold a beneficial interest in 30% or more of the Company's voting shares, then that shareholder and its concert parties must make an offer to acquire the shares of all other shareholders in cash, subject to waiver of such obligation by existing shareholders of the Company holding a majority of the Company's outstanding common shares, excluding the proposed allottee, its concert parties and its affiliates. The Company was successful in obtaining these requisite waivers.

Newly issued common shares and certain shares held by existing shareholders were offered in the initial AIM listing only to non-US persons outside the United States; in turn, the offer and issuance were exempt from registration under the U.S. Securities Act pursuant to the SEC's Regulation S. Most of the newly issued common shares offered in the 2012 listing were also only offered to non-US persons outside the United States; the offer and issuance were again exempt from registration under the U.S. Securities Act pursuant to the SEC's Regulation S. A portion of the 2012 offering was made available to the directors and officers of the Company pursuant to Regulation D of Rule 506 of the Securities Act of 1933. The Company's common shares trade on AIM under the HAL.LN and HALO.LN ticker symbols. All newly issued common shares are first listed on the HAL.LN ticker symbol. The HAL.LN line of stock represents common shares that still bear the restrictive legend on transfer pursuant to the US Securities Act of 1933 and may be traded only in certificated form. Furthermore, such shares may not be knowingly offered, sold, pledged or otherwise transferred, directly or indirectly, to or for the account or benefit of any U.S. person; provided, however, that holders of the Company's common shares sold pursuant to Regulation S have the opportunity to offer, sell, and transfer shares in transactions meeting the requirements of Regulation S, which provide defined exemptions from the registration requirements. In addition, if the HAL.LN shares meet the requirements of Rule 144 of the Securities Act, a holder may transfer the relevant common shares from the HAL.LN to the HALO.LN line of stock and the restrictive legend will be removed from the common shares. The HALO.LN shares are unrestricted.

17. Subsequent events

The Company has evaluated subsequent events through the date on which the financial statements were available to be issued. No transactions or events have occurred that would require further disclosure.

18. Statement of directors responsibilities

The Directors confirm to the best of their knowledge that the unaudited condensed consolidated financial statements have been prepared in accordance with ASC 270, *Interim Financial Reporting*.