HALOSOURCE

Interim Results

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This announcement contains inside information

HaloSource, Inc.

("HaloSource" or the "Company")

Interim results for the six months ended 30 June 2016

HaloSource, Inc. (HAL.LN, HALO.LN), the global clean water technology solutions company trading on London's AIM, today announces its interim results for the six months ended 30 June 2016.

Highlights

- Completed the sale of the Company's Recreational Water and Environmental Water businesses during H1 2016
- Revenue from continuing operations of $1.4 million (H1 2015: $2.7 million)
- Reduced operating expenses from continuing operations to $5.2 million (H1 2015: $5.4 million), expected to decrease further in H2 2016
- Net cash and short-term investments at period end of $4.1 million ($4.6 million as at 31 December 2015)

Martin Coles, President and CEO of HaloSource, said:

"In order to focus exclusively on our class leading, bromine based, contact kill biocide solution for drinking water contamination we exited two of our three business segments during the first six months of 2016. In doing so we have significantly reduced our operating costs and realigned our resources to focus exclusively on the growth of our Drinking Water business and accelerate our strategy of becoming the technology solutions provider of choice for multi-national companies operating in the Drinking Water sector.

The Company remains committed to accelerating the commercialisation of our unique, proprietary water purification technologies by leveraging both the go-to-market capacity of our existing customer base and the new customers we expect to add at the regional level. Against this backdrop, we expect to deliver gross margin expansion and tight control of operating expenses in addition to revenue growth while significantly decreasing the revenue required to generate positive cash flow on a consolidated basis.

We remain confident in the growth potential of the business and look forward to bringing the full capability of our realigned team to the problems presented by biological and chemical contamination of the world's finite water supplies."

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About HaloSource

HaloSource, Inc. innovates and integrates technologies to deliver clean, drinking water solutions to partners with trusted brands around the world. The Company works with scientists and industry experts across the globe in search of new ways to improve drinking water quality and has been awarded more than 30 patents for its ground breaking chemistries, which provide safe drinking water for more than 10 million consumers globally. The Company's class-leading HaloPure® Drinking Water technology has the highest global certifications, including registration with the US EPA.

Founded in Seattle, Washington, HaloSource has grown to become an influential leader in drinking water purification. HaloSource is headquartered in the US with operations in China and in India. Learn more about the Company's research and development and future cutting edge technologies by visiting www.halosource.com.

HaloPure is a registered trademark of HaloSource, Inc. All other trademarks, brand names or product names belong to their respective holders.

This document contains certain forward-looking statements relating to the Company. The Company considers any statements that are not historical facts as "forward-looking statements". They relate to events and trends that are subject to risk and uncertainty that may cause actual results and the financial performance of the Company to differ materially from those contained in any forward-looking statement. These statements are made by management in good faith based on information available to them and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

Financial Review

Total revenues from continuing operations decreased by 48% to $1.4 million, largely due to manufacturing related production stoppages at one of our key customers in China (unrelated to product supplied to the customer by HaloSource), resulting in customer orders of approximately $750,000 not being shipped in the period. However, our customer's manufacturing challenges have now been resolved and they restarted production in July 2016. Sales were also impacted by lower than expected revenues from major customers in India and Latin America, offset somewhat by better than expected sales to the Company's second largest customer in China.

Gross margin from continuing operations was -10%, down from +20% for the same period last year, representing the impact of reduced sales from our largest customer as noted above. Operating expenses from continuing operations for H1 2016 totaled $5.2 million, down from $5.4 million in H1 2015. The previous year's operating expenses included a one-time goodwill impairment charge of $0.2 million related to the termination of the patent license for our anti-microbial coatings business during the period. We expect operating expenses to be significantly lower in H2 2016, taking into account the reduction in our U.S. based headcount that occurred in our continuing operations during H1, as well as ongoing reductions in other operating expenses.

Consolidated net loss was $4.5 million for the period, down from a net loss of $5.4 million in H1 2015, driven primarily by income from discontinued operations of $0.9 million. The income from discontinued operations included a gain on sale of our Recreational Water and Environmental Water businesses of $1.3 million and $0.3 million, respectively.

Further information on these transactions may be found in Note 5 to the Unaudited Interim Consolidated Financial Statements contained herein.

The Company ended the period with $4.1 million of cash and cash equivalents and short-term investments, compared with $4.6 million in total as at 31 December 2015.

Operational Review

While we had anticipated growth versus the prior year in H1 2016, unfortunately one of our largest market partners experienced significant manufacturing raw material quality issues internally and as such we were unable to ship to them during much of the period. This was only partially offset by stronger than anticipated performance by our second largest partner, Lonsid, which continues to expand the use of HaloPure cartridges for biofilm control in its reverse osmosis devices, a new area of opportunity for the Company.

Eureka Forbes continued to perform well as it expanded the presence of a new range of gravity fed devices incorporating automatic shut offs to force cartridge replacement once the effective life has expired. We believe that this will significantly improve the Company's performance in the repeat purchases of cartridges, which has traditionally been a challenge for the retail channel.

Panasonic shipments were below expectations in H1, as they encountered device issues unrelated to HaloPure that required them to re-design a portion of their treatment train, as well as weaker uptake through rural distribution programs than expected. The issue has now been resolved through re-engineering and we also anticipate an uptick in penetration in rural markets as the Company re-launches its devices in India in Q3 of this year.

People

The Company's headcount at 30 June 2016 was 93, versus 122 at 30 June 2015. Headcount inthe United States was reduced from 50 to 22, where we expect it to remain relatively stable, during H1 2016. As a result, 76% of the Company's headcount is now located inIndia and China, compared with 50% in the prior period.

Outlook

While some of our partners have experienced go-to-market challenges in H1, resolutions to these issues have been implemented and we anticipate getting back to typical run rates in H2 2016. We continue to support current partners, while continuing to bring new relationships on stream through business development activities and focus on creation and integration of new technology platforms.

The issues of drinking water contamination and drinking water availability continue to present a global challenge which only grows with each year. To this end we are in the final stages of commercialising a unique, patent-pending cartridge based solution for achieving lead reduction performance that meets or exceeds the NSF 53 lead reduction standard for gravity devices (pitchers and bottles). While currently focused on lead reduction, the development of this technology will also provide the HaloPure brand with a second technology platform, which has the flexibility to offer high-performance reduction of other chemical contaminants in gravity applications as well. Beyond gravity applications, we also expect that this media offering will deliver performance advantages versus other alternative solutions for chemical contamination reduction in pressurised applications. We are confident that once commercialised, this technology will have far-ranging global application and can make a significant impact on the lives of consumers dealing with chemical and heavy metals contamination. This new technology platform, coupled with our focus on penetrating the fast-growing Reverse Osmosis markets in China and India continues to reinforce the optimism we feel for the future performance of the business.

HaloSource, Inc. and Subsidiaries **Unaudited Interim Condensed Consolidated Statements of Operations and Comprehensive Loss** *(US $000's, except per share data)*	**Six months ended June 30, 2016**	Six months ended June 30, 2015
Revenue - net	**$1,368**	$2,704
Cost of goods sold	**1,507**	2,169
Gross profit (loss)	**(139)**	535
Operating expenses		
Research and development	**941**	914
Selling, general, and administrative	**4,289**	4,335
Goodwill impairment	**-**	173
Total operating expenses	**5,230**	5,422
Operating loss	**(5,369)**	(4,887)
Other expense, net	**(67)**	(23)
Loss before income taxes	**(5,436)**	(4,910)
Income taxes	**-**	-
Loss from continuing operations	**(5,436)**	(4,910)
Income (loss) from discontinued operations, net of tax	**892**	(539)

Net loss	**$(4,544)**	$(5,449)
Other comprehensive loss		
Unrealized gain (loss) on available-for-sale investments	**3**	(12)
Foreign currency translation adjustments	**(3)**	(22)
Other comprehensive loss	**-**	(34)
Comprehensive loss	**$(4,544)**	$(5,483)
Loss per share from continuing operations - basic and diluted	$(0.02)	$(0.02)
Income (loss) per share from discontinued operations - basic and diluted	0.00	(0.00)
Basic and diluted net loss per share	**$(0.02)**	$(0.02)
Shares used to compute basic and diluted loss per share (000's)	**220,278**	220,246

See accompanying notes to unaudited interim condensed consolidated financial statements

HaloSource, Inc. and Subsidiaries

Unaudited Interim Condensed Consolidated Balance Sheets *(US $000's)*	**June 30, 2016**	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	**$1,237**	$3,052
Short-term investments	**2,863**	1,504
Accounts receivable, less allowance for doubtful accounts of $20 and $23, respectively	**2,586**	3,194
Inventories - net	**1,521**	1,372
Prepaid expenses and other current assets	**1,058**	1,107
Receivable from sale of discontinued operations	**2,351**	-
Current assets held for sale	**-**	6,718
Total current assets	**11,616**	16,947
Property and equipment - net	**1,664**	1,866
Goodwill	**518**	518
Deposits and other noncurrent assets	**223**	214
Noncurrent portion of receivable from sale of discontinued operations	**90**	-
Noncurrent assets held for sale	-	2,241
Total assets	**$14,111**	$21,786
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	**$944**	$1,620
Accrued expenses	**564**	1,357
Salaries and benefits payable	**400**	415
Current portion of debt and capital lease obligations	**19**	19
Current liabilities held for sale	-	1,676
Total current liabilities	**1,927**	5,087
Long-term portion of debt and capital lease obligations	**9**	6
Deferred rent	**884**	960
Deferred tax liabilities	**174**	174
Total liabilities	**2,994**	6,227
Stockholders' equity		
Common stock, no par value	**141,595**	141,493
Accumulated other comprehensive income	**72**	72
Accumulated deficit	**(130,550)**	(126,006)
Total stockholders' equity	**11,117**	15,559
Total liabilities and stockholders' equity	**$14,111**	$21,786

See accompanying notes to unaudited interim condensed consolidated financial statements

HaloSource, Inc. and Subsidiaries

Unaudited Interim Condensed Consolidated Statements of Stockholders' Equity

	Common Stock		Accumulated Other Comprehensive	Accumulated	Total Stockholders'
(US$000's, except shares in 000's)	Shares	Amount	Income	Deficit	Equity
Balance, December 31, 2014	**220,230**	**$141,219**	**$225**	**$(114,588)**	**$26,856**
Exercise of common stock options	8	1	-	-	1
Issuance of shares upon vesting of restricted stock	40	10	-	-	10

Share-based compensation	-	263	-	-	263
Other comprehensive loss	-	-	(153)	-	(153)
Net loss	-	-	-	(11,418)	(11,418)
Balance, December 31, 2015	**220,278**	**$141,493**	**$72**	**$(126,006)**	**$15,559**
Share-based compensation	-	102	-	-	102
Net loss	-	-	-	(4,544)	(4,544)
Balance, June 30, 2016	**220,278**	**$141,595**	**$72**	**$(130,550)**	**$11,117**

See accompanying notes to unaudited interim condensed consolidated financial statements.

HaloSource, Inc. and Subsidiaries **Unaudited Interim Condensed Consolidated Statements of Cash Flows** *(US $000's)*	**Six months ended June 30, 2016**	Six months ended June 30, 2015
Operating activities		
Net loss	**$(4,544)**	$(5,449)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	**299**	494
Goodwill impairment	**-**	173
Allowance for inventory, sales returns and bad debts	**(161)**	45
Share-based compensation	**102**	130
Loss (gain) on disposal of property, equipment and other assets	**3**	(8)
Gain on sale of discontinued operations	**(1,581)**	-
Changes in operating assets and liabilities:		
Accounts receivable	**3,595**	2,230
Inventories	**(485)**	(23)
Prepaid expenses and other assets	**769**	652
Accounts payable	**(2,085)**	(1,327)
Accrued expenses and other liabilities	**(683)**	(512)
Salaries and benefits payable	**(184)**	(96)
Deferred rent	**(89)**	(72)
Net cash used in operating activities	**(5,044)**	(3,763)
Cash flows from investing activities		
Proceeds on disposal of discontinued operations	**4,662**	-
Proceeds on disposal of property and equipment	**13**	8
Purchase of property and equipment	**(63)**	(159)
Purchase of short-term investments	**(1,356)**	(31)
Sale of short-term investments	**-**	4,500
Decrease in restricted cash	**-**	1,552
Net cash provided by investing activities	**3,256**	5,870
Cash flows from financing activities		
Repayments of debt and capital lease obligations	**(10)**	(1,056)
Net cash used in financing activities	**(10)**	(1,056)
Effect of exchange rate changes on cash	**(17)**	(18)
Net increase (decrease) in cash and cash equivalents	**(1,815)**	1,033
Cash and cash equivalents, beginning of period	**3,052**	3,295
Cash and cash equivalents, end of period	**$1,237**	$4,328

See accompanying notes to unaudited interim condensed consolidated financial statements

Notes to Condensed Consolidated Financial Statements

1. General information

HaloSource, Inc. and its subsidiaries (together, the "Company" or "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 partners with trusted brands. The Company's proprietary technologies enable the Company's partners to provide safe drinking water to their customers. HaloSource markets its products under its brand name, HaloPure®.

2. Basis of preparation

The condensed consolidated financial information as of June 30, 2016 and December 31, 2015 and for the six month periods ended June 30, 2016 and 2015 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". They do not include all disclosures that would otherwise be required in a complete set of financial statements and the condensed consolidated financial information should be read in conjunction with the audited annual financial statements for the year ended December 31, 2015, which have also been prepared in accordance with U.S. GAAP and were made available on March 24, 2016. The independent Auditors' Report on that Annual Report and Financial Statements for the year ended 31st December 2015 was unqualified, but did include a reference to the uncertainty surrounding going concern, to which the auditors drew attention by way of emphasis. The financial information for the six-month periods ended June 30, 2016 and June 30, 2015 is unaudited; further, all periods presented have been updated to reflect the disposal of the Recreational Water and Environmental Water reporting segments within discontinued operations. The Board of Directors approved this interim report on 9th September 2016.

Principles of consolidation

The 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., and HASO Corporation. Intercompany transactions and balances have been eliminated.

Liquidity and capital resources

The Company has incurred net losses and negative operating cash flows since inception, and as of June 30, 2016, the Company had an accumulated deficit of approximately $130.4 million. For the six months ended June 30, 2016, the Company's net loss was$4.54 million and cash used in operating activities was $5.04 million. As of June 30, 2016, the Company has$1.24 million of cash and cash equivalents and $2.86 million of short term investments.

The Company has implemented certain cost savings measures and implemented other plans in order to reduce net loss and cash used by operations in 2016 and 2015 and expects to continue to do so. In order to generate sufficient revenue to achieve profitability, the Company must successfully maintain its existing relationships and build new relationships with its customers to develop the reach and application of the Company's technologies. There can be no assurance that these efforts will be successful. The Company continues to face significant risks associated with successful execution of its strategy. These risks include, but are not limited to, technology and product development, introduction and market acceptance of new products and services, changes in the marketplace, liquidity, competition from existing and new competitors which may enter the marketplace, and retention of key personnel. Management plans to continue to finance the Company's operations with a combination of currently available cash and short-term investments. Management believes current funding will be sufficient to finance the Company's operations through the remainder of 2016; however, if necessary, the Company may seek other financing options. If adequate funds are not available, the Company may be required to reduce the scope, delay or eliminate some or all of its planned commercial activities. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The financial statements for the period ended June 30, 2016 do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from uncertainty related to the Company's ability to continue as a going concern.

Discontinued operations

A discontinued operation is a significant component of the Company that has either been disposed of, or is classified as held for sale, and represents a separate major line of business or is part of a plan to dispose of a separate major line of business. Results from discontinued operations that are clearly identifiable as part of the component disposed of and that will not be recognized subsequent to the disposal are presented separately as a single amount in the consolidated statements of operations and comprehensive loss. Results from discontinued operations are reclassified for prior periods presented in the financial statements so that the results from discontinued operations relate to all operations that have been discontinued as of the balance sheet date for the latest period presented.

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, among others, the Company's allowance for doubtful accounts, sales returns, 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, 2015.

Recent accounting pronouncements

In June 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The update gives entities a single comprehensive model to use in reporting information about the amount and timing of revenue resulting from contracts to provide goods or services to customers. The ASU, which applies to any entity that enters into contracts to provide goods or services, will supersede current revenue recognition requirements and most industry-specific guidance throughout the Industry Topics of the Codification. The update is effective for the Company for its financial year ending December 31, 2018, including interim periods within that reporting period and early adoption is not permitted. The Company is currently reviewing the provisions of this ASU to determine if there will be any material effect on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory*, which requires inventory within the scope of the ASU (e.g., FIFO or average cost) to be measured using the lower of cost and net realizable value. Inventory excluded from the scope of the ASU (i.e., LIFO or the retail inventory method) will continue to be measured at the lower of cost or market. The ASU is effective prospectively for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2016, and for interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted as of the beginning of an interim or annual reporting period. If an entity has previously written down inventory (within the scope of the ASU) below its cost, the reduced amount is considered the cost upon adoption. Upon adoption, the change from the lower of cost or market to the lower of cost and net realizable value for inventory within the scope of the ASU will be accounted for as a change in accounting principle. The Company is currently reviewing the provisions of this update to determine if there will be any material effect on its consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*, which requires all deferred tax liabilities and assets of the same tax jurisdiction or a tax filing group, as well as any related valuation allowance, be offset and presented as a single noncurrent amount in a classified balance sheet. However, an entity should not offset deferred tax liabilities and assets attributable to different tax-paying components of the entity or to different tax jurisdictions, consistent with the guidance under existing U.S. GAAP. Therefore, for many reporting entities, deferred income taxes will be presented in noncurrent assets and noncurrent liabilities. The ASU is effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted as of the beginning of any interim or annual reporting period. The Company does not anticipate the adoption of this update will have a material effect on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-2, *Leases*. The new standard in this update requires that any entity that is a lessee record, for all leases with a term exceeding 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments. The update is effective for the Company for its financial year ending December 31, 2019, including interim periods within that reporting period and early adoption is permitted. The Company is currently reviewing the provisions of this update to determine if there will be any material effect on its consolidated financial statements.

In March 2016, the FASB amended the existing accounting standards for stock-based compensation, with ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*. The ASU introduces targeted amendments intended to simplify the accounting for stock compensation.

Specifically, the ASU requires all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) to be recognized as income tax expense or benefit in the income statement. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity also should recognize excess tax benefits, and assess the need for a valuation allowance, regardless of whether the benefit reduces taxes payable in the current period. That is, off balance sheet accounting for net operating losses stemming from excess tax benefits would no longer be required and instead such net operating losses would be recognized when they arise. Existing net operating losses that are currently tracked off balance sheet would be recognized, net of a valuation allowance if required, through an adjustment to opening retained earnings in the period of adoption. Entities will no longer need to maintain and track an "APIC pool." The ASU also requires excess tax benefits to be classified along with other income tax cash flows as an operating activity in the statement of cash flows. In addition, the ASU elevates the statutory tax withholding threshold to qualify for equity classification up to the maximum statutory tax rates in the applicable jurisdiction(s). The ASU also clarifies that cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity. The ASU provides an optional accounting policy election (with limited exceptions), to be applied on an entity-wide basis, to either estimate the number of awards that are expected to vest (consistent with existing U.S. GAAP) or account for forfeitures when they occur. The ASU is effective for public business entities for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the amendments are effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted in any interim or annual period for which the financial statements have not been issued or made available to be issued. Certain detailed transition provisions apply if an entity elects to early adopt. The Company is currently reviewing the provisions of this update to determine if there will be any material effect on its consolidated financial statements.

4. Commitments and contingencies

Litigation and other contingencies

The Company may be subject to a variety of legal proceedings that could arise in the ordinary course of business or from its shareholders. The Company evaluates its exposure to threatened or pending litigation on a regular basis. To the extent it was required, the Company would evaluate the potential amount of loss related to litigation as well as the potential range of outcomes related to such loss. Determining the amount of potential loss and the range of potential outcomes requires significant judgment. The Company will record a loss contingency if an amount becomes both probable and measurable. In addition, any such proceedings, whether meritorious or not, could be time consuming, costly, and result in the diversion of significant operational resources or management time.

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.

Total rent expense under operating lease agreements for the six months ended June 30, 2016 and 2015 was $422,000 and $428,000, respectively.

5. Discontinued operations

The Company disposed of its Recreational Water and Environmental Water businesses in May 2016 and February 2016, respectively. The results of operations for both Recreational Water and Environmental Water have been reported in discontinued operations for all periods presented.

Recreational Water

Under the terms of the disposition agreement, the Company sold its Recreational Water business for total consideration of:

- a cash payment at closing of the disposition of $4,000,000;
- a cash payment of $3,500,000 adjusted for uncollected receivables, non-saleable inventory and other working capital adjustments to be received in August 2016 ("Second Payment"); and
- a cash payment of up to $500,000 payable on or before March 1, 2017 subject to the Recreational Water business achieving revenues between $9,684,000 and $13,073,000 for the 12-month period ending December 31, 2016. In the event that revenue for the Recreational Water business for the 12-month period ending December 31, 2016 is less than $9,684,000, no deferred consideration will be payable.

Subsequent to June 30, 2016, the Company received the Second Payment from the purchaser of the Recreational Water business in the amount of $1,774,000 along with a post-closing report detailing the purchaser's calculation of the Second Payment. The purchaser returned $589,000 in uncollected accounts receivable to the Company and made other working capital adjustments. As of the date on which the financial statements are available to be issued, the Company is reviewing the accuracy of the calculation of the Second Payment and retains a $411,000 balance receivable from the purchaser.

The Company recognized a $1,278,000 gain on the sale of its Recreational Water business but does not anticipate income taxes to arise from the gain.

Environmental Water

Under the terms of the disposition agreement, the Company sold its Environmental Water business for total consideration of:

- a cash payment for the book value of inventory and certain capital assets in the amount of $662,000;
- a cash payment of not less than $303,000 and not more than $1,147,000 payable in quarterly instalments based upon revenues of the Environmental Water business for the two-year period post-disposal.

The Company recognized a $303,000 gain on the sale of its Environmental Water business but does not anticipate income taxes to arise from the gain.

The following table details selected financial information for Recreational Water and Environmental Water included in income (loss) from discontinued operations in the consolidated statements of operations and comprehensive loss:

Six months ended June 30, 2016

(US $000's)	Recreational Water	Environmental Water	Total
Revenue - net	$ 2,165	$ 276	$ 2,441
Cost of goods sold	1,176	305	1,481
Gross profit (loss)	989	(29)	960
Operating expenses	1,505	144	1,649
Net loss	(516)	(173)	(689)
Gain on disposal	1,278	303	1,581
Income from discontinued operations, net of tax	**$ 762**	**$ 130**	**$ 892**

Six months ended June 30, 2015

(US $000's)	Recreational Water	Environmental Water	Total
Revenue - net	$ 3,605	$ 1,178	$ 4,783
Cost of goods sold	1,521	776	2,297
Gross profit	2,084	402	2,486
Operating expenses	1,915	1,110	3,025

Income (loss) from discontinued operations, net of tax	$ 169	$ (708)	$ (539)

The consolidated balance sheet of the Company had no assets or liabilities held for sale from the Recreational Water and Environmental Water segments at June 30, 2016. Assets and liabilities held for sale from the Recreational Water and Environmental Water segments were comprised of the following items at December 31, 2015:

(US $000's)	Recreational Water	Environmental Water	Total
Accounts receivable	$ 4,703	$ -	$ 4,703
Inventories - net	1,386	463	1,849
Prepaid expenses and other current assets	166	-	166
Total current assets held for sale	$ 6,255	$ 463	$ 6,718
Goodwill	$ 1,490	$ -	$ 1,490
Other intangible assets	601	-	601
Property and equipment - net	-	150	150
Total noncurrent assets held for sale	$ 2,091	$ 150	$ 2,241
Accounts payable	$ 1,590	$ -	$ 1,590
Accrued expenses and other current liabilities	86	-	86
Total current liabilities held for sale	$ 1,676	$ -	$ 1,676

The Company's consolidated statements of cash flows include the following significant operating and investing noncash items related to discontinued operations:

Six months ended June 30, 2016

(US $000's)	Recreational Water	Environmental Water	Total
Operating Activities			
Depreciation and amortization	$ 51	$ -	$ 51
Allowance for inventory, sales returns and bad debts	(54)	(16)	(70)
Changes in operating assets and liabilities:			
Accounts receivable	2,561	563	3,124
Inventories	(377)	(50)	(427)
Prepaid expenses and other assets	150	-	150
Accounts payable	(867)	-	(867)
Accrued expenses and other current liabilities	(80)	-	(80)

Six months ended June 30, 2015

(US $000's)	Recreational Water	Environmental Water	Total
Operating Activities			
Depreciation and amortization	$ 61	$ 99	$ 160
Allowance for inventory, sales returns and bad debts	(5)	(42)	(47)
Changes in operating assets and liabilities:			
Accounts receivable	2,703	(51)	2,652
Inventories	(242)	151	(91)
Prepaid expenses and other assets	(19)	-	(19)
Accounts payable	(943)	-	(943)
Investing Activities			
Purchase of property and equipment	$ -	$ (19)	$ (19)

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.

Our financial results from continuing operations are reported on the basis of two reportable geographic segments: China and India. Financial information for the six months ended June 30, 2015 has been reclassified to be consistent with the June 30, 2016 presentation.

Information on reportable segments and reconciliation to condensed consolidated net loss for the six-month periods ended June 30, 2016 and 2015 are presented below. Also presented below are total assets by segment as of June 30, 2016 and December 31, 2015. The Company does not assign intangible assets to the segments.

Six months ended June 30, 2016

(US $000's)	China	India	Unallocated	Consolidated
Revenue	$ 1,130	$ 238	$ -	$ 1,368
Gross profit (loss)	(29)	(65)	(45)	(139)
Operating expenses	(570)	(239)	(4,421)	(5,230)
Other income (expenses), net	8	(1)	(74)	(67)
Loss before income taxes				$ (5,436)
Assets	$ 3,223	$ 1,768	$ 9,120	$ 14,111

Six months ended June 30, 2015, except assets as of December 31, 2015

(US $000's)	China	India	Unallocated	Consolidated
Revenue	$ 2,404	$ 254	$ 46	$ 2,704
Gross profit (loss)	749	(111)	(103)	535
Operating expenses	(376)	(166)	(4,880)	(5,422)
Other income (expenses), net	(45)	(65)	87	(23)
Loss before income taxes				$ (4,910)
Assets	$ 4,062	$ 1,832	$ 15,892	$ 21,786

Assets held for sale within Unallocated totaled $6,718,000 as of December 31, 2015.

7. 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 and warrants. The Company had a net loss for all periods presented herein; therefore, none of the options 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 5,706,000 and 8,259,000 of common stock were excluded from the calculations of diluted loss per share for the six months ended June 30, 2016 and 2015, respectively.

8. Goodwill and Impairment of Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business combinations. Goodwill is not amortized but is tested for impairment annually on December 31 or more frequently if events or changes in circumstances indicate that the asset might be impaired. No impairment was recorded during the six months ended June 30, 2016. During the six months ended June 30, 2015 the Company determined that an impairment of goodwill in the amount of $173,000 occurred in conjunction with its abandonment of its anti-microbial coatings business (HaloShield) during the period.

9. Related party transactions

During each of the six months ended June 30, 2016 and 2015, the Company paid royalties for certain patent rights of$225,000 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, as well as research and development expenses in the accompanying condensed consolidated statements of operations and comprehensive loss. The Company had no outstanding accounts payable to the university at June 30, 2016 or December 31, 2015.

During the six months ended June 30, 2016 and 2015, the Company was provided with business development and investor relations services in the amount of $10,000 and zero, respectively, by a member of the Company's Board of Directors. These expenses are included in selling, general and administrative expenses in the accompanying consolidated statements of operations and comprehensive loss. The Company did not have an amount payable to this Director at June 30, 2016 or December 31, 2015.

10. Business and credit concentration

Essentially all of the Company's revenue from continuing operations is generated in emerging market countries, including India and China. For the six-month periods ended June 30, 2016 and 2015, three of the Company's Drinking Water customers (two in China, one in India) individually accounted for greater than 10% of the Company's revenue as well as 76% and 81% in the aggregate, respectively. Accounts receivable from these customers represented 42% and 58% of total accounts receivable at June 30, 2016 and December 31, 2015, respectively. In addition, essentially all raw materials and manufacturing facilities used in continuing operations are sourced from, or located in, the same emerging market countries. These markets represent varying political and regulatory environments that can potentially affect the Company's continuing operations.

11. Stock options and share-based compensation

For stock-based compensation, 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.

During the six month periods ended June 30, 2016 and 2015, the Company issued stock options and restricted stock awards under its 2010 Equity Incentive Plan ("2010 Plan") totaling 50,000, and 2,414,000, respectively. As of June 30, 2016, the Company had 2,504,000 shares available for issuance under the 2010 Plan.

The Company 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, 2016 and 2015, the Company recorded stock based compensation expense of $102,000 and $130,000, respectively, including expense related to restricted stock awards of $0 and $10,000, respectively. All stock based compensation has been recorded under selling, general, and administrative expenses within the Consolidated Statements of Operations and Comprehensive Loss. No income tax benefit was recognized in the condensed consolidated statements of operations and comprehensive loss for share-based compensation arrangements.

12. Subsequent events

In August 2016 the Company received the Second Payment (as defined in Note 5, above) from the purchaser of the Recreational Water business in the amount of $1,774,000 along with a post-closing report detailing the purchaser's calculation of the Second Payment. The purchaser returned $589,000 in uncollected accounts receivable to the Company and made other working capital adjustments. As of the date on which the financial statements are available to be issued, the Company is reviewing the accuracy of the calculation of the Second Payment and retains a $411,000 balance receivable from the purchaser.

The Company has evaluated subsequent events through the date on which the financial statements were available to be issued.

13. Cautionary statement

This Interim Report has been prepared solely to provide additional information to shareholders to assess the Company's strategies and the potential for these strategies to succeed. The Interim Report should not be relied on by any other party or for any other purpose. The Interim Report contains certain forward-looking statements with respect to the financial condition, results of operations and businesses of the Company. These statements are made in good faith based on the information available to them up to the time of their approval of this report. However, such statements should be treated with caution as they involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. The continuing uncertainty in global economic outlook inevitably increases the economic and business risks to which the Company is exposed. Nothing in this announcement should be construed as a profit forecast.