

Company announcement

Release date: 29 July 2022

June 2022 (Q2) Quarterly Update

Phoslock Environmental Technologies (ASX:PET) today provided a trading update for the quarter ending 30 June 2022.

Financials

PET's quarterly cash flow report shows a net cash outflow of approximately \$3 million in the June quarter.

Receipts of \$764,000 were related to receipts from our distributor in Brazil and minor customers in China and Europe.

Administration and corporate costs included ongoing investigation and litigation costs relating to legacy issues and some redundancy costs as we right-size the company for a rebuild back to sustainable profitability.

The company remains well funded with cash and cash equivalents of approximately \$17.5 million at end of the quarter.

Business Update

During the quarter, PET continued to restructure and reset operations in most key geographies. These changes are being made to support the Company's strategic growth plans and ensure appropriate levels of risk management and governance.

Sales in the quarter were relatively small but generally in line with expectations as the company rebuilds the sales pipeline following COVID pandemic related impacts.

In South America, PET's licensee in Brazil, HydroScience, continued to perform well with ongoing applications and the generation of new leads. A number of smaller projects were completed in Brazil with other projects continuing on an annual basis. Projects in Uruguay and Ecuador are expected later in this year, thereby expanding our footprint in South America

Several projects were also completed in Australia. An application scheduled to be undertaken in Auckland, New Zealand, was deferred due to Covid-related travel restrictions. That project is expected to commence in the next few months.



Our performance in the USA over the past couple of years has been disappointing and did not meet our expectations. As a result, we have restructured our commercial operations and we are well advanced with arrangements that are resulting in expanded distribution in the US. Orders for product from the new distributors appointed in the USA were invoiced during the quarter and the business footprint is building steadily. Trials to be conducted by the City of Orlando in Florida in the near future are expected to show positive results and build the momentum in this important area of the USA.

In China, the focus has been on completing our business resetting and developing a go-to-market strategy that balances the opportunities that continue to exist for PET in this market with the business risks and investment required. While sales have been disappointing and well below expectations, we will continue to assess the optimum business model which can deliver secure and profitable sales over future years.

In April, the Board approved an investment of approximately \$1 million in our China manufacturing facility which will allow us to reach a capacity of 6,000 tonnes per annum. This capacity equates to a level of sales required for the business to break even at current cost levels. This capacity increase will be critical in the short term as we build the sales pipeline and continue to evaluate the proposed new manufacturing facility in the United States.

PET's profile in Europe continued to build following the successful completion of the major Kralingse Plas Project in The Netherlands. Kralingse Plas monitoring data shows results are good compared to previous years after Phoslock application. Several smaller projects have been secured for applications in the Netherlands in the second half of the financial year and other promising leads are being pursued.

New distributors have been appointed in Germany, Spain and the UK, with a UK strategic partnership also secured with SSI Services, part of the South Staffs Water organisation.

On the R&D front, PET continued to make good progress in developing and testing a number of complementary products. There is a particular focus on developing products that enable phosphorous and other nutrients to be removed from flowing water. PET recently signed a distribution agreement with a leading technology provider from the US for a unique flowing water product for Phosphorus capture.

The successful deployment of these products will significantly expand PET's addressable market and business opportunities.

Potential collaborations with other technology providers are also being actively investigated.

Relisting on the ASX

Subsequent to the end of the quarter, as announced on 11 July, PET received correspondence from the ASX stating that the Company's securities will be reinstated for quotation on the ASX subject to a number of conditions being met. PET believes it will be in a position to meet all of these conditions upon the release of audited first half 2022 results, scheduled for late August.

Subsequent event

The Company announced on 7 July that a court in China has ordered the payment of an outstanding receivable to PET's Beijing based subsidiary, Beijing Ecosystem Environmental Science and Technology Co., Ltd (abbreviated as "BEST"). Notably, the defendant was ordered to pay BEST unpaid receivables to the amount of RMB ¥ 31.9 million (approximately \$A 6.9 million) and late interest of RMB ¥ 1.2 million (approximately \$A 260,000), totalling approximately \$A 7.14 million. The period in which this order could be appealed expired on 19 July. The defendant must pay to BEST the aforementioned amounts by 18 October 2022. In addition, the defendant has been ordered to return



to BEST 967 tonnes of Phoslock product previously delivered (but not yet applied), and to pay court costs.

Outlook

In the short-term the outlook remains challenging from a revenue perspective as we look to rebuild our sales pipeline and execute on our growth strategy, while incurring some ongoing costs associated with legacy issues. However, over the remainder of this year, we do see positive opportunities in a number of our markets, especially the USA, Europe and ANZ, as new products are being developed in water remediation. In addition, in Australia there are opportunities in new sectors such as mining and industrial water applications.

Phoslock maintains an important competitive advantage in the markets in which we operate and is looking to leverage that advantage to deliver sustainable and profitable growth in the years ahead. Shareholders should note the company is adequately funded while the business pipeline is being rebuilt.

Further business updates and commentary will be provided when PET releases results for the half year ended June 30 in late August.

This announcement has been approved by the Managing Director and Chairman

Mr David Krasnostein AM
Chairman

Mr Lachlan McKinnon
Managing Director & CEO

Matthew Parker
Company Secretary

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About PET

Phoslock Environmental Technologies Limited (ASX: PET) specialises in engineering solutions and water treatment products to remediate polluted lakes, rivers, canals and drinking water reservoirs.

Headquartered in Melbourne, PET has offices in Brisbane, Beijing, Bremen (Europe) and Manchester (UK). PET also has registered entities in Canada, USA and Belgium, and manufacturing operations based in Changxing, China. PET is represented by licensees, distributors and agents in numerous other countries including HydroScience in Brazil.

Phoslock® is a proprietary and unique water treatment product that permanently binds excess phosphorus in the water column and sediments.

Phoslock is certified for use in drinking water in North America, Europe, Brazil, Australia, and China. Along with Phoslock, PET also supplies zeolites and specialised solutions that address water pollution issues.

www.phoslock.com.au

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

PHOSLOCK ENVIRONMENTAL TECHNOLOGIES LIMITED

ABN

88 099 555 290

Quarter ended ("current quarter")

June 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	764	3,303
1.2 Payments for		
(a) research and development	(107)	(391)
(b) product manufacturing and operating costs	(646)	(1,442)
(c) advertising and marketing	(66)	(111)
(d) leased assets	(140)	(510)
(e) staff costs	(999)	(2,269)
(f) administration and corporate costs	(2,119)	(3,886)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	4	16
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	272	272
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(3,037)	(5,018)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(136)	(176)
(d) investments	-	-
(e) intellectual property	(62)	(69)
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(198)	(245)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	-	-

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	20,736	22,990
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(3,037)	(5,018)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(198)	(245)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	-
4.5	Effect of movement in exchange rates on cash held	32	(194)
4.6	Cash and cash equivalents at end of period	17,533	17,533

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	6,422	5,973
5.2	Call deposits	11,111	14,763
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	17,533	20,736

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

Current quarter \$A'000
-
-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

Payments in item 6.1 are included investor relations service provided by associates of directors, and rent payment to a related parties' entity.

7. Financing facilities

Note: the term "facility" includes all forms of financing arrangements available to the entity.

Add notes as necessary for an understanding of the sources of finance available to the entity.

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	-	-

7.5 Unused financing facilities available at quarter end

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7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(3,037)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	17,533
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	17,533
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	6

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: N/A

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: N/A

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

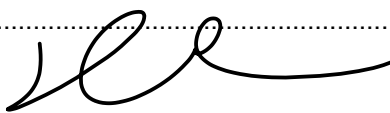
Answer: N/A

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

29 July 2022

Date:

Authorised by: 

(Managing Director)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.