

## Company announcement

Release date: 31 October 2022

# September 2022 (Q3) Quarterly Update

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

### Financials

PET's quarterly cash flow report shows a net cash outflow of approximately \$1.9m in the September quarter. This is a significant reduction from the previous quarter's \$3m outflow.

Receipts of \$678k were primarily related to receipts from PET's South American distributor Hydrosience and newly formed distribution relationships in the USA, with smaller amounts received from distributors in Europe and China.

Administration and corporate costs were lower in this quarter compared to the June quarter due to lower ongoing investigation and litigation costs relating to legacy issues.

Whilst lower than Q2, the business did incur redundancy costs, primarily in China as we right-size the company and rebuild back to sustainable profitability.

Planned investments in plant and equipment in China was rescheduled for Q4 2022.

The company remains adequately funded with cash and cash equivalents of approximately \$15.6 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, Hydrosience, continued to perform well with ongoing applications and the generation of new leads. Hydrosience is on track to record one of its strongest years with PET. In Uruguay, an order for a small treatment has been delayed and is now expected in Q4 2022.



In Australia and NZ, trial work continued on a number of projects, predominantly in Western Australia and the Narrows Lakes in Perth, which was treated late in the quarter. In NZ, the Auckland city council application to The Chelsea Ponds was delayed again and is now expected to be treated in late October.

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 capabilities in the US.

To this end, during the quarter, we made two key appointments in the US. Firstly, Bush Heathman was appointed as General Manager USA in September after several months of being contracted to co-ordinate the company's local business operations in Casper, Wyoming. After serving in the US Army, Bush started a career within the energy sector in the United States. He spent 18 years working with major companies developing and exploring an array of sustainable energy production methods. During the last several years in his role as an Operations Manager, Bush focused on working with senior management on improving all business activities, including ESG. Bush has served on several boards for investment diversification and those that also provided research for improved ESG industry-wide.

Also in the US, Greg Wagner joined PET in September 2022 as the Technical Sales Representative for the Great Lakes Region. Greg is a career water treatment sales professional with 24 years of experience in the industrial and municipal segments, working for both regional and international companies. In these roles he has developed a strong technical background and the ability to use this knowledge to develop sales by bringing solutions to customers.

These appointments mark a substantial increase in our resources in the key US market and will be critical in helping us meet our long-term sales objectives.

Throughout the quarter modest sales were made through the distribution network now established in the US.

In Canada, work continues with the regulatory authorities and while this continues to take time, PET remains confident of achieving a satisfactory outcome.

As stated previously, the Board has 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 important in the short term as we rebuild the sales pipeline and continue to evaluate the proposed new manufacturing facility in the United States.

In China, only a small volume of sales was made during the quarter. China was and continues to be severely disrupted due to ongoing COVID lockdowns and these restrictions continue to hamper our business activities. Towards the end of the quarter a major restructuring of the sales team occurred with the implementation of a distribution sales platform and accompanying shift away from the prior direct sales model.

In Europe, significant progress was made with the signing of numerous distribution agreements in both the UK and mainland Europe. Several larger waterbody projects were initiated and progressed, with further updates to be made as these approach contractual agreements.

In August, PET announced that it had entered into an agreement with US based Water Warriors Inc. to distribute a patented product that has been proven to be effective in the removal of phosphorus from freshwater sources including stormwater, agricultural runoff and municipal waste-water. Marketed as 'Phosflow', the product is highly complementary to PET's own patented technology and addresses one of the Company's key strategic objectives of broadening its technology and service offerings into additional market segments. Together with PET's global leading position as a treatment



solution in still-water settings, Phosflow enables PET to offer a total solution in both still-water and flowing water environments.

The Phosflow distribution rights granted to PET are exclusive and cover global markets including Europe, USA, Canada, South America, China, Australia and New Zealand for an initial period of two years and an option to extend, subject to PET meeting certain performance criteria.

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**

After almost two years under suspension, PET shares resumed trading on the ASX on 16 September. This was a watershed moment for the company, and signifies PET is moving forward after two years of dealing with substantial legacy issues stemming from the company's activities in China under previous management.

Post the resumption of trading on the ASX, several Directors of PET acquired shares on-market. This represents a vote of confidence in the company's future prospects, notwithstanding it will take some time to rebuild the sales pipeline and return the company to profitability.

### **Subsequent events**

#### **Xing Yun Lake receivable**

PET disclosed on 24 October 2022 that despite a court ordering the YuXi City People's Court ("Court") to pay PET's Beijing based subsidiary, Beijing Ecosystem Environmental Science and Technology Co., Ltd ("**BEST**") the outstanding receivable plus late interest (totalling approximately \$A 7.14 million) by 21 October 2022, none of the receivable and late interest has been paid to date. In response, BEST has applied to the Court for enforcement actions and will continue to pursue all legal avenues available for the recovery of these payments. Further updates on this matter will be provided in due course.

### **Project status information**

PET has released on our website a new page entitled "Projects". This page will inform interested parties of the extensive list of projects and project-related activities that PET is currently undertaking. This page will be updated regularly and, as per normal, PET will continue advise when significant projects reach contracted stage.

### **Outlook**

In the short-term, the outlook remains challenging for PET as we look to rebuild the sales pipeline and execute on the growth strategy. There are considerable activities and projects underway but a number of these will take some time to reach contracted applications. Over the remainder of this year, positive opportunities exist in the USA, Europe and ANZ.

Longer term, the market for PET's products and services continues to grow, with water quality issues likely to be prioritised as the impact of COVID and other global uncertainties begin to recede.



Phoslock maintains an important competitive advantage in the markets in which it operates 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.

**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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**Further information:**

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**About PET**

Phoslock Environmental Technologies Limited (ASX: PET) specialises in water treatment products to remediate nutrient polluted fresh waterbodies including, lakes, rivers, canals, municipal and private ponds, recreational and drinking water reservoirs.

Headquartered in Melbourne, PET also has offices in Shanghai and the UK, sales resources in China, ANZ, Europe and the US. 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.

Phosflow is a proprietary and unique water remediation product that removes excess phosphorus in flowing water applications.

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](http://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")**

September 2022

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	678	3,981
1.2 Payments for		
(a) research and development	(104)	(495)
(b) product manufacturing and operating costs	(629)	(2,071)
(c) advertising and marketing	(57)	(168)
(d) leased assets	(56)	(566)
(e) staff costs	(832)	(3,101)
(f) administration and corporate costs	(994)	(4,880)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	4	20
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	295	567
1.8 Other (provide details if material)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(1,695)</b>	<b>(6,713)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(205)	(381)
(d) investments	-	-
(e) intellectual property	(7)	(76)
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 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)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(212)</b>	<b>(457)</b>
<b>3.</b>	<b>Cash flows from financing activities</b>		
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)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>-</b>	<b>-</b>
<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	17,533	22,990
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,695)	(6,713)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(212)	(457)

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</b>
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	-
4.5	Effect of movement in exchange rates on cash held	(1)	(195)
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>15,625</b>	<b>15,625</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	6,313	6,422
5.2	Call deposits	9,312	11,111
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>15,625</b>	<b>17,533</b>

**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

<b>Current quarter \$A'000</b>
-
-

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.

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

**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)	-	-
<b>7.4 Total financing facilities</b>	-	-

**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.

<b>8. Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1 Net cash from / (used in) operating activities (Item 1.9)	(1,695)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	15,625
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	15,625
<b>8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)</b>	<b>9</b>

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.

October 31 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.