

Company announcement

Release date 28 July 2023

June 2023 (Q2) Quarterly Update

Phoslock Environmental Technologies (ASX:PET) today provided a trading update for the quarter ending 30 June 2023.

Financials

PET's quarterly cash flow report shows a net cash outflow from operating activities of \$0.62 million in the June quarter. This was a significant improvement on the prior quarter, which recorded approximately \$3.2 million in operating cash outflow.

Cash receipts from customers were \$1.09 million compared to \$0.6 million in the seasonally impacted March quarter. The higher receipts represented sales by PET distributors in Brazil and the United States and smaller customers in Australia and Europe.

Capacity expansion at the company's Chinese manufacturing facility was largely completed during the quarter, with the remaining investment associated with this project likely to be under \$100,000.

Administration and corporate costs were considerably lower as the efficiencies of right sizing the business were realised, along with prudent cost and cash flow management. While some ongoing legacy issue investigation costs were incurred, these are now trending much lower than in previous quarters.

The company closed the period with cash and cash equivalents of approximately \$10.3 million at end of the June quarter.

Business Update

Sales and business development activity in the quarter showed an improvement on the prior period, which was impacted by the Christmas break and winter seasonal conditions in the northern hemisphere.

In Europe, Phoslock trials were completed in Poland and showed excellent results. Discussions are now underway with local authorities to consider commercial applications across up to six lakes with an additional river system application also being considered. Contract negotiations are also underway in Finland and in The Netherlands, where a relatively large application is close to being confirmed.



Sales for the quarter were made for projects in Belgium and Poland, with one of our distributors in the Netherlands placing an order for stock to support their enquiries. While these sales were relatively small, they represent significant progress and foundational work in securing much larger opportunities in the future.

Several opportunities are being progressed in other European countries including Sweden, Spain, Ireland, Czech Republic and Germany and new distribution arrangements are being reviewed in France, Spain, and Ireland.

In the US, Phoslock sales to distributors continue to grow and – for the first six months of the year - are some 26% ahead of sales in the same period last year. The June quarter also saw a significant increase in larger lake enquiries throughout the US. This improvement and increased interest validate the new distribution strategy implemented within the last 12 months.

In Canada, we continue to engage with the national regulators to find a way through the impasse over our registration. While this is proving to be frustratingly slow, we are buoyed by the ongoing enquiries and potential for significant projects in Canada, which justifies our continued efforts in having this matter resolved in our favour.

Sales were secured in Brazil during the quarter (some 100 tonnes ordered in June), which builds on previous sales in Q1. Prolonged dry conditions in Uruguay have contributed to delays in expected orders in that country.

In Australia, as recently announced, a contract for approximately 50 tonnes was signed that involved river remediation work in Western Australia.

Interest in Phosflow continues to build across multiple markets. A combination treatment of Phoslock and Phosflow in Indiana (US) generated excellent results with extremely positive feedback from the local authority and indications of regular ongoing treatments to be implemented.

Phosflow trials also continued in a wastewater setting in the UK and, in Australia, applications were completed in Sydney, Melbourne and 2 in WA.

Negotiations and discussions continue with the Xingyun Lake authorities for recovery of the outstanding receivable. While these negotiations continue, no firm agreement has yet been reached on payment dates and amounts. Similarly, a receivable for approximately A\$0.8M regarding a water blanket treatment some years ago is now being adjudicated in the Chinese courts. Both these receivables have previously been impaired in the company's accounts.

Chinese sales have been small, with larger volumes expected in the second half as distribution negotiations and current enquiries are translated into firm orders.

Outlook

We anticipate additional sales activity through the second half of the financial year as current leads and negotiations are converted into contracts, and we identify new opportunities.

Focused attention on cost control and efficiencies is resulting in lower overheads and – combined with the impact of increased customer receipts – a reduced cash burn. At the end of the June quarter, cash on hand was in excess of \$10 million.



As mentioned in the most recent AGM, over the past two years, the business has cautioned that there is a significant time lag between the commitment of funding to water remediation projects – which has been slow and uncertain. The lead time for converting opportunities into sales, and then into cash receipts, has always been, and remains difficult to predict.

These timing uncertainties continue to be frustrating for the company and for shareholders. Whilst we have funded this lead time out of our cash reserves in the past there is a limit to our ability to do this indefinitely. The Company has a limited period within which it must begin to realise and achieve not only its strategic objectives, but financial progress and results.

The previously announced strategic review lead by Resolute has progressed through the period. The Board remains open to examining all options with potential stakeholders, partners and counterparties to maximise shareholder value.

Coinciding with this activity, PET's leadership remains focused on executing on its commercial plans, demonstrated by increased interaction with potential customers across all of the Company's sales regions.

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 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.petwatersolutions.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 2023

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	1,094	1,694
1.2 Payments for		
(a) research and development	(33)	(95)
(b) product manufacturing and operating costs	(146)	(628)
(c) advertising and marketing	(45)	(125)
(d) leased assets	(59)	(331)
(e) staff costs	(671)	(1,939)
(f) administration and corporate costs	(768)	(2,460)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	7	54
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(621)	(3,830)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(72)	(317)
(d) investments	-	-
(e) intellectual property	(38)	(57)
(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	(110)	(374)

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	11,023	14,456
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(621)	(3,830)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(110)	(374)

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	13	53
4.6	Cash and cash equivalents at end of period	10,305	10,305

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	2,892	2,010
5.2	Call deposits	7,413	9,013
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)	10,305	11,023

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
-
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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)	(621)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	10,305
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	10,305
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	17

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.

July 28 2023

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.