

Company announcement

Release date: 16 January 2023

December 2022 (Q4) Quarterly Update

Phoslock Environmental Technologies (ASX:PET) today provided a trading update for the quarter ending 31 December 2022.

Financials

PET's quarterly cash flow report shows a net cash outflow of approximately \$1m in the December quarter, which continues the trend of a reduction in cash outflows in recent quarters.

Receipts of \$1.6m were primarily related to HydroScience, PET's South American distributor and KQB (Kaiqinbo) China, which - after a protracted legal negotiation - agreed to partially pay \$216,000 of the total \$321,000 owing, the balance of which was paid on Friday the 13 January 2023.

Administration and corporate costs were marginally higher in this quarter compared to the September quarter as a result of higher consulting expenditure, partially offset by lower people costs (currency adjusted) as a result of the structural changes made in China.

The company remains adequately funded with cash and cash equivalents of approximately \$14.5 million at end of the quarter. This closing balance is a \$1m improvement on what was forecasted in the Pre-Reinstatement disclosure posted on the 16 September 2022. Higher than forecasted receipts, (primarily the payment from KQB), delays in projected expenditures on previously announced capacity improvements in China and USA and lower than forecasted overall administration expenditures are the key drivers of the improved result. The forecasted capacity improvements are now timed to be paid in the March (Q1) 2023 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 going forward.

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. To this end, during the quarter each region in which PET operates continued to develop in-market activities, grow local networks and engage with potential new customers, which should enable improved sales outcomes in the quarters ahead.



In order to provide greater transparency of the team's efforts to rebuild PET's sales pipeline, during the quarter a new page was included on PET's website entitled "Projects" where shareholders and other interested parties can view the status of various existing and potential projects around the globe. As shown on this page, PET is involved in over 60 existing and potential projects across its regions, ranging from preliminary discussions to contracted applications. This page will be updated regularly, and PET will advise the market when significant new projects reach contracted stage.

Phoslock applications continued, with some applications during the quarter on Chelsea Ponds (Auckland, New Zealand), The Narrows Lakes (Perth, Western Australia) and Wolvenvallei and Heetuin, (Rotterdam, Netherlands) as part of the Kraslingse Plas treatment.

Activity around Phosflow, which is PET's new product for removing phosphorus from flowing water, increased with initial sales being made in the ANZ region. Positive meetings with various utilities and private companies were held in all the key geographic regions of PET to share developments and showcase Phosflow's water treatment uses, both as a single product and in conjunction with Phoslock as a total water solution for projects involving both flowing and still water environments. A number of these meetings are expected to enable sales in Q1 of 2023.

PET continues to refine its distribution model across different geographies. The company is pursuing a 'distribution-led' go to market model in all regions, complemented by direct sales to large lake projects. The use of distributors will expand PET's addressable market across smaller and more repeatable projects in each region, such as smaller drinking catchments/reservoirs, private waterways, water treatment plants and mining operations requiring wastewater treatment. PET's direct sales team focuses on large lake projects which can be substantial, however the timing of these large projects can be hard to predict, subject to the customer's funding arrangements and COVID related constraints, albeit the latter is becoming less of an issue going forward.

An example of our refined distribution model was the establishment of a strategic partnership with SSI Services (UK) Limited during the quarter. SSI Services is the specialist contracting division of South Staffordshire Plc, one of the UK's largest water utilities. This partnership ensures a national approach across the UK that will deliver improved customer engagement, seamless application support and strong technical reach.

In other geographies, PET's Brazilian distributor HydroScience continues to deliver strong sales outcomes with a record year in sales for Brazil. Unfortunately expected sales in Uruguay didn't materialise in the quarter but are still expected in the first half of 2023. In China, we expect to complete the appointment of exclusive distributors in targeted provinces after the Chinese New Year. This will replace the direct sales model in China which contributed to the company's difficulties over the past couple of years and will reduce the risk of customer payment defaults once a project is completed.

On the regulatory front, discussions continue with Canadian regulators regarding the status of PET's product registrations in that market. Progress has been made, albeit slower than we would like. The Canadian market represents a significant opportunity for PET once regulatory and licensing issues have been resolved with relevant authorities.

On the product manufacturing front, the machinery required for the expansion of PET's Chinese plant in Changxing has been delivered and is now installed. The production capacity of this plant will increase to 6,000 tonnes per annum, for an investment of approximately \$1m. This is an important step for PET's future sales and will enable the company to meet short term sales projections, while continuing the evaluation of a longer-term manufacturing expansion option. Discussions continue with Wyoming State about PET's potential future manufacturing site outside the city of Casper, however a decision to proceed is subject to detailed financial modelling containing realistic sales assumptions for the Western Hemisphere markets going forward. As always PET will keep the market informed on developments.



PET continues to develop its sales team with two new appointments made during the quarter – Bush Heathman as General Manager, PET USA and Greg Wagner as Technical Sales Rep for the Great Lakes sales region in the US . Recruitment continues for European Sales resources.

Outlook

While leads and opportunities for PET products grow daily, the challenge remains the conversion of these into contracted sales. Therefore, in the shorter-term, the company is forecasting modest growth only.

Longer term, the market for PET's products and services continues to grow, with water quality issues likely to be prioritised as COVID impacts begin to recede. With new products such as Phosflow expanding the company's addressable market, and refined distribution models across our geographic regions building new relationships while mitigating risks, the outlook for PET is positive, and the Company expects this to be reflected in the company's financial performance over time.

The northern hemisphere summer in 2023 will be an important time for the company to secure substantial new projects and help rebuild investor confidence in the Company. With cash on hand of \$14.5m at the end of the December quarter, PET remains 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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About PET

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

Headquartered in Melbourne, PET has offices in Shanghai, UK (Woking) (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.

Phosflow is a proprietary and unique water treatment product that permanently binds excess phosphorus in flowing freshwater.

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")

December 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	1,574	5,555
1.2 Payments for		
(a) research and development	(33)	(528)
(b) product manufacturing and operating costs	(353)	(2,424)
(c) advertising and marketing	(66)	(234)
(d) leased assets	(121)	(687)
(e) staff costs	(1,093)	(4,194)
(f) administration and corporate costs	(1,246)	(6,126)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	64	84
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	231	798
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(1,043)	(7,756)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(164)	(545)
(d) investments	-	-
(e) intellectual property	(7)	(83)
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 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	(171)	(628)

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	15,625	22,990
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,043)	(7,756)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(171)	(628)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 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	45	(150)
4.6	Cash and cash equivalents at end of period	14,456	14,456

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	5,081	6,313
5.2	Call deposits	9,375	9,312
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)	14,456	15,625

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

-

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)	(1,043)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	14,456
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	14,456
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	14

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?

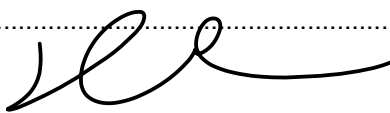
Answer: N/A

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.

16 Jan 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.