

Company announcement

Release date: 28 April 2023

March 2023 (Q1) Quarterly Update

Phoslock Environmental Technologies (ASX:PET) today provided a trading update for the quarter ending 31 March 2023.

Financials

PET's quarterly cash flow report shows a net cash outflow of approximately \$3.4m in the March quarter.

Cash receipts of \$600k were lower than the previous quarter due to seasonal factors (Christmas break and Northern Hemisphere winter). The company continues to rebuild the sales pipeline and anticipates a busier second half of the year.

Product and manufacturing costs were higher than the previous quarter as part of the capacity expansion at the company's Chinese manufacturing facility to 6,000 tons per annum. This expansion will be completed in the current quarter (Q2).

Administration and corporate costs were higher than the previous quarter due to audit fees associated with the preparation of the FY22 results, ongoing legal fees supporting legacy matters and corporate advisory fees as PET explore long term strategic options to improve shareholder value.

The company closed the period with cash and cash equivalents of approximately \$11 million at end of the March quarter.

Business Update

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 lead to improved sales outcomes in the quarters ahead.

These activities include several successful application projects and sales leads across our key regions as we start to see some positive outcomes from our newly implemented distribution-led sales model. Research and trial works continue, with development initiatives and efforts to expand our reach and relevance in the global market and in more water treatment segments.



PET has introduced a focused distribution-led market approach across all the company's operations globally. The model is supported by our direct sales approach, which is focused on the large lakes and waterbodies segment which tends to involve unpredictable and less frequent timing and be 'lumpy' in nature. Our distribution partners are now generating the smaller but more accessible and repeatable projects involving nutrient control in drinking water catchments, private waterways, golf courses, recreational water, treatment plants, mining, and water reclamation.

In Europe, Phoslock application projects were completed in Belgium, the Netherlands and Poland, with applications scheduled for next month in Germany and the UK. These works will total more than 46 tonnes. The sites include camping and leisure lakes, with potential for expanded applications to ensure nutrient levels are managed.

A series of Phosflow trials is underway to assess waterbodies for potential application and efficacy in various environmental settings, as well as assessments to confirm phosphorus removal from dairy streams and effective phosphorus absorption from wastewater treatment for safe discharge. One of the trials, if successful represents a significant opportunity with a major UK wastewater drainage infrastructure manufacturer and supplier to manage domestic and commercial wastewater.

PET continues to make progress and raise awareness in the USA, with the successful treatment of Lake Leslie, Indiana, using Phoslock and Phosflow. This was an important application for the team and our distribution partner, resulting in the health of this lake being restored for the local community's benefit. Initial data received indicates Phosflow applications resulted in a significant reduction in external loading of phosphorus into the lake, indicating that when both products are used together, they provide a total solution.

On 6 April, the Wyoming Business Council (WBC) and the Governor of Wyoming approved a grant of US\$600,000 to the Natrona County Economic Development Joint Powers Board and Advance Casper (AC) to assist in the purchase of 2199 Pyrite Road Casper by AC.

The Pyrite Road site is currently leased to AC, and PET is a sub-lessor. Following the purchase of the site by AC, PET will enter into a lease with AC for the site. As a result of the grant, our annual rental will be reduced from US \$24,000 pa to US \$12,000 pa. This will allow PET to continue our feasibility study around this project within a suitable economic framework.

In Australia, one of our first mining applications for Phoslock was confirmed with a lithium operation in the Northern Territory. The mining and resources segment has significant opportunity for PET throughout Australia, helping to address the sector's sustainability and governance requirements. Additional projects are in the pipeline and in planning across both Australia and New Zealand, including Phosflow trials in Victoria, New South Wales, Tasmania and Western Australia and a number of commercial sales in both countries.

In South America, our licensee in Brazil Hydrosience continues to do well with sales of approx. 140 tonnes made throughout the quarter – these were for existing long-term projects, and it is encouraging to note a number of new projects emerging in Brazil.

In Uruguay we remain confident of a smaller treatment (delayed for over 12 months) being completed during Q2 of 2023.

In China, we are in the final stages of signing distribution agreements with a number of partners throughout the major water regions of China. Like other regions, these distribution partners provide us with the potential for quick and secure access to water bodies throughout China. Substantial work has been undertaken to ensure our new China business model meets the governance and risk management standards that we have put in place after the difficulties PET experienced in China under previous management. The plant development upgrades to our China facility are largely completed, with the new machinery installed and fully operational.

PET continues to pursue all outstanding receivables for projects previously completed in China, in particular Xingwyn Lake. PET will advise shareholders should any significant progress be made.



On the R&D front, our team continues to develop the potential use of nitrogen binding compounds, working with the US EPA and various other research organisations. The objective is to assess formulation and product opportunities for nitrogen capture in flowing water, which will complement PET's offering in phosphorus removal.

Outlook

In the short-term, the outlook remains challenging for PET as we look to rebuild the sales pipeline and execute on the company's growth strategy, while incurring ongoing costs.

The northern hemisphere summer in 2023 will be an important time for the company to win substantial new projects.

As outlined in a separate announcement titled "PET Strategic Review" released today, PET has engaged Resolute Advisory Pty Ltd (Resolute), a leading independent corporate advisory firm, to undertake a strategic review of the business.

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

– end –

Further information:

Lachlan McKinnon
Managing Director and CEO
lmckinnon@phoslock.com.au
p: +61 3 9110 0002

Greg Slade
Investor Relations
gslade@phoslock.com.au
enquiries@phoslock.com.au



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")

March 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	600	600
1.2 Payments for		
(a) research and development	(62)	(62)
(b) product manufacturing and operating costs	(482)	(482)
(c) advertising and marketing	(80)	(80)
(d) leased assets	(272)	(272)
(e) staff costs	(1,268)	(1,268)
(f) administration and corporate costs	(1,692)	(1,692)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	47	47
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	(3,209)	(3,209)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(245)	(245)
(d) investments	-	-
(e) intellectual property	(19)	(19)
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 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	(264)	(264)

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	14,456	14,456
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(3,209)	(3,209)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(264)	(264)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 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	40	40
4.6	Cash and cash equivalents at end of period	11,023	11,023

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	2,010	5,081
5.2	Call deposits	9,013	9,375
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)	11,023	14,456

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.

7.1 Loan facilities

7.2 Credit standby arrangements

7.3 Other (please specify)

7.4 **Total financing facilities**

Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
-	-
-	-
-	-
-	-

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)

(3,209)

8.2 Cash and cash equivalents at quarter end (Item 4.6)

11,023

8.3 Unused finance facilities available at quarter end (Item 7.5)

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8.4 Total available funding (Item 8.2 + Item 8.3)

11,023

8.5 **Estimated quarters of funding available (Item 8.4 divided by Item 8.1)**

3

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.

28 April 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.