

Activities Report for the Quarter Ended 30 June 2018

Highlights:

- **Customer receipts up 15% on prior quarter to ~\$2.9m with operating cash burn substantially reduced**
- **Largest contract secured since inception - \$1.7m agreement for water treatment facility in South Australia**
- **First commercial orders for proprietary low pressure hollow fibre nanofiltration membrane**
- **Entry into lucrative food & beverage market sector through Aromatec**
- **On track to achieve CY2018 revenue forecast of \$10m-\$12m (previously \$8m-\$10m), an up to 314% year-on-year increase**

25 July 2018: Water and wastewater treatment company De.mem Limited (ASX: DEM) (“De.mem” “the Company”) provides this update on its progress for the quarter ended 30 June 2018.

Financial highlights

Receipts from customers during the quarter to 30 June 2018 increased 15% to \$2.9m (Q1 2018: \$2.6m), driven by new contract wins secured. Total receipts from customers in the first 6 months of CY2018 were \$5.5m. This underpins the upgraded revenue forecast of \$10m-12m for CY2018 and a substantial increase on full year 2017 revenue of \$2.9m.

Operating cash burn has been decreased substantially to -\$230,000 during the quarter, compared to -\$713,000 in the prior quarter (Q1 2018). Net cash used in investing activities was -\$72,000 (Q1 2018: -\$136,000), with \$28,000 earmarked for the Aromatec agreement (see below).

With the uplift in cash receipts and the decrease in cash burn, De.mem’s cash balance was \$2.1m as at 30 June 2018. The Company is well funded to achieve its near term growth prospects.

Please refer to the attached Appendix 4C Filing for further details.

Revenue forecast for CY2018 upgraded to \$10m-\$12m

As advised on 16 May 2018, De.mem increased its CY2018 revenue forecast to \$10m-\$12m (previous: \$8m-\$10m). Compared to CY2017 revenue of \$2.9 million, this is a 314% year-on-year increase.

Revenue growth is underpinned by new project wins, a strong order book and execution of current ‘Build, Own, Operate’ and ‘Operations and Maintenance’ contracts.

\$1.7m contract secured for supply of water treatment solutions in South Australia

During the quarter, De.mem secured its largest ever contract from leading Australian private, integrated property construction group St Hilliers Property Pty Ltd (“St Hilliers”) for delivery of a turn-key water treatment system, including associated equipment and pumping systems, worth \$1.7m.

De.mem will deliver and install the water treatment system, providing clean water to a vehicle wash bay in South Australia. The contract is expected to complete this calendar year.

First commercial orders received for De.mem hollow fibre membranes

De.mem delivered another important milestone with the first commercial orders for its proprietary membrane technology from customers in Singapore and Vietnam. The orders, while not material in value, provide wider validation of the technology ahead of broader commercial deployment.

A purchase order for 20 8-inch wide modules of the low pressure hollow fibre nanofiltration membrane was received from Hung Thanh Environmental JSC in Nghe An province, Vietnam (refer image 1 overleaf). Using the membrane modules, the customer will upgrade an existing membrane-based water treatment plant, which provides potable water to households. As well, the Company was awarded a 'Build, Own, Operate' agreement by Boon's Carwash, Singapore for provision of ultra-clean water.

The low pressure hollow fibre nanofiltration technology is in-licensed from Nanyang Technological University, Singapore ("NTU"), and delivers much lower operating costs, requires reduced investment relative to other conventional water treatment technologies and provides higher quality product water.

Entry into lucrative food & beverage market segment through Aromatec

As announced on 8 May 2018, De.mem made a strategic investment into a partnership with Aromatec Pte Ltd ("Aromatec"), a new Singapore-based company targeting the food & beverage sector.

De.mem invested an amount of SGD\$100,000 in Aromatec. It now holds 32% of Aromatec and will work as a strategic partner, assisting in the manufacturing of systems as it progresses. Further, Aromatec has sublicensed its innovative hollow fibre Forward Osmosis ("FO") technology to De.mem for use in industrial water treatment applications.

The new FO technology will be utilised by Aromatec for the de-watering or cold concentration of products in the food & beverage manufacturing process, such as flavourings, fruit juices, as well as dairy and whey (refer image 2 overleaf). The FO technology has already been deployed to the first commercial projects.

The technology has a strong value proposition for both Aromatec and De.mem. It is seen to be more competitive than current market offerings as it runs without the use of external pressure or high temperatures and therefore helps to conserve key ingredients such as nutrients and aromas.

The partnership facilitates De.mem's expansion into the food & beverage processing sector. The initiative is complementary to De.mem's existing product offering and will deliver an additional revenue stream for the Company in the future.

Management commentary:

Andreas Kroell, CEO of De.mem said: "De.mem continues to execute on its growth strategy, as reflected in the excellent progress we have made during the quarter.

"The substantial increase in customer receipts is underpinned by new contract wins, including the largest received since inception, worth \$1.7m. These contracts, and our strengthening sales pipeline, leave De.mem well placed to achieve its revenue forecast of \$10m-12m for CY2018.

"The increase in revenues comes along with a largely reduced operating cash burn, which decreased to only -\$230,000 during the quarter.

"From a strategic perspective, De.mem also made strong progress with a number of initiatives including receipt of the first commercial orders for its proprietary hollow fibre membranes, and entry into the lucrative food & beverage sector through Aromatec.

"We continue to manage our cost base very tightly without inhibiting growth, as reflected in our rapidly reducing cash burn. With a healthy cash balance of \$2.1m at the end of the period, De.mem is well capitalised and focused on achieving cash flow positivity in the near term."

-ENDS-



Image 1: De.mem 8-inch hollow fiber membrane modules ready for shipment to customer site in Vietnam



Image 2: De.mem/Aromatec Forward Osmosis technology demonstration set up

For further information, please contact:

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About De.mem Limited

De.mem Limited (ASX:DEM) is a Singaporean-Australian decentralised water and waste-water treatment business that designs, builds, owns and operates water and waste water treatment systems for its clients. De.mem operates in the industrial segment providing systems and solutions to customers from the mining, electronics, chemicals, oil & gas and the food & beverage industries and in the municipal and residential segments. De.mem has licensed proprietary technologies from its partner in research & development, Singapore's Nanyang Technological University (NTU), including an exclusive worldwide license for a revolutionary low-pressure hollow fibre nanofiltration membrane. Through its wholly owned subsidiary Akwa-Worx Pty Ltd, De.mem has a strong presence in Australia. Akwa-Worx has a market reputation for building high quality Australian designed and manufactured products and has long-term customers in the Australian mining industry. To learn more please visit: www.demembranes.com

Forward Looking Statements

Statements contained in this release, particularly those regarding possible or assumed future performance, revenue, costs, dividends, production levels or rates, prices or potential growth of De.mem Limited, are, or may be, forward looking statements. Such statements relate to future events and expectations and, as such, involve known and unknown risks and uncertainties. Actual results and developments may differ materially from those expressed or implied by these forward-looking statements depending on a variety of factors.

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

De.mem Limited

ABN

12 614 756 642

Quarter ended ("current quarter")

30 June 2018

| 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 | 2,943 | 5,499 |
| 1.2 Payments for | | |
| (a) research and development | - | - |
| (b) product manufacturing and operating costs | (1,830) | (3,705) |
| (c) staff costs | (1,008) | (1,979) |
| (d) advertising and marketing | (41) | (105) |
| (e) administration & corporate costs | (291) | (644) |
| (f) leased assets | (6) | (11) |
| 1.3 Dividends received (see note 3) | - | - |
| 1.4 Interest received | 1 | 3 |
| 1.5 Interest and other costs of finance paid | (1) | (2) |
| 1.6 Income taxes paid | - | - |
| 1.7 Government grants and tax incentives | - | - |
| 1.8 Other receipts | 3 | 1 |
| 1.9 Net cash from / (used in) operating activities | (230) | (943) |

| | | |
|--|------|-------|
| 2. Cash flows from investing activities | | |
| 2.1 Payments to acquire: | | |
| (a) property, plant and equipment | (44) | (55) |
| (b) businesses (see item 10) | - | (125) |
| (c) investments | (28) | (28) |

| Consolidated statement of cash flows | Current quarter \$A'000 | Year to date (6 months) \$A'000 |
|---|------------------------------------|--|
| (d) intellectual property | - | - |
| (e) other non-current assets | - | - |
| 2.2 Proceeds from disposal of: | | |
| (a) property, plant and equipment | - | - |
| (b) businesses (see item 10) | - | - |
| (c) investments | - | - |
| (d) intellectual property | - | - |
| (e) 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 | (72) | (208) |

| | | |
|---|----------|----------|
| 3. Cash flows from financing activities | | |
| 3.1 Proceeds from issues of shares | - | - |
| 3.2 Proceeds from issue of convertible notes | - | - |
| 3.3 Proceeds from exercise of share options | - | - |
| 3.4 Transaction costs related to issues of shares, convertible notes or options | - | - |
| 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 quarter/year to date | 2,454 | 3,300 |
| 4.2 Net cash from / (used in) operating activities (item 1.9 above) | (230) | (943) |
| 4.3 Net cash from / (used in) investing activities (item 2.6 above) | (72) | (208) |
| 4.4 Net cash from / (used in) financing activities (item 3.10 above) | - | - |

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (6 months) \$A'000 |
|---|--|------------------------------------|--|
| 4.5 | Effect of movement in exchange rates on cash held | (20) | (17) |
| 4.6 | Cash and cash equivalents at end of quarter | 2,132 | 2,132 |

| 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 | 1,632 | 2,154 |
| 5.2 | Call deposits | 500 | 300 |
| 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) | 2,132 | 2,454 |

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

**Current quarter
\$A'000**

93

-

Relates to salary and fees paid to Directors.

Also includes payments to Ventnor Capital Pty Ltd, a company associated with Director Stuart Carmichael as consideration for Company Secretarial services and accounting services.

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

**Current quarter
\$A'000**

-

-

| 8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i> | Total facility amount at quarter end \$A'000 | Amount drawn at quarter end \$A'000 |
|--|--|---|
| 8.1 Loan facilities | - | - |
| 8.2 Credit standby arrangements | - | - |
| 8.3 Other (please specify) | - | - |
| 8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well. | | |

| 9. Estimated cash outflows for next quarter* | \$A'000 |
|---|--------------|
| 9.1 Research and development | 90 |
| 9.2 Product manufacturing, employee and operating costs | 1,915 |
| 9.3 Advertising and marketing | 35 |
| 9.4 Administration and corporate costs | 335 |
| 9.5 Total estimated cash outflows* | 2,375 |

* excludes sales revenue

| 10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above) | Acquisitions | Disposals |
|--|--------------|-----------|
| 10.1 Name of entity | - | - |
| 10.2 Place of incorporation or registration | - | - |
| 10.3 Consideration for acquisition or disposal | - | - |
| 10.4 Total net assets | - | - |
| 10.5 Nature of business | - | - |

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.

Sign here: 
(Director/Company secretary)

Date:25 July 2018.....

Print name:Brett Tucker.....

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly 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 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.