



ASX Code: **PHK**

Share Price: **A\$0.08**

52 Week High: **A\$0.125**

52 Week Low: **A\$0.031**

Issued Shares: **367.9m**

Market Cap: **A\$29.4M**

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PHK BLOG on Water Issues:

www.phoslock.com.au

ASX ANNOUNCEMENT

Tuesday 31st January, 2017

Business Progress

Key Points:

- Current Order Book exceeds \$5 million
- Sales for December 2016 quarter in excess of \$1.1m
- Significant investment in inventory (\$1.7m this financial year)
- Growing investment in China

Highlights

Cash receipts from customers and government grants for the December quarter were \$1,009,000. A further \$302,000 was received in early January, 2017. Sales for the first half of FY2017 were close to \$2.0 million.

Business activity for the December quarter was strong. The majority of product shipments were to Brazil, for the Pampulha Lake project and HidroScience's reservoir project in the north east.

Continuing investment in the Chinese sales office has created a substantial pipeline of potential projects. Results from a number of trial applications have been positive and provide a springboard for future sales.

Current contracted work, to be completed during 2017, is in excess of \$5 million. This covers 12 separate projects in Brazil, UK, Belgium, Canada, U.S. and China.

China

The first year of operation of the sales office in Shanghai achieved satisfactory results: Five marketing agreements with large Chinese environmental groups and paid trials and smaller applications in six different areas. A large pipeline of projects has been established. A number of these projects are large – some over 10,000 tonnes, a number of which have the potential to convert into sales in 2017.

PHK Shanghai is focussed on being part of larger national water treatment solutions, with the provision of modified zeolites, bacteria and other active ingredients targeting both phosphorus and nitrogen.

Phoslock has been extensively tested in China and has passed the relevant eco-toxicity tests and the Aquatic Ecological Safety Risk Assessment by Chinese Research Academy of Environmental Sciences (CRAES). This will enable Phoslock to be sold for use in drinking water reservoirs, lakes, canals as well as landscape water bodies threatened by eutrophication and blue algae.

South America

By the end of 2016, some 400 tonnes of Phoslock had been applied to Lake Pampulha in Brazil, approximately one third of the total expected dosage. Further quantities have since been ordered and will be shipped to Brazil shortly. To date, total sales of Phoslock for this project are in excess of \$1.6 million.

A second successful application of Phoslock was undertaken on a drinking water reservoir in north eastern Brazil. Sales for this project exceeded \$500,000 in 2016. Negotiations are currently underway to continue the treatment program into 2017.

In addition to these projects, PHK's Brazilian licensee, Hidroscience, has been actively promoting Phoslock to a number of new customers across of Brazil, with sales expected to be announced in coming months.

Europe

PHK Europe was awarded two new contracts during the quarter, with a total value approaching \$300,000. These projects are located in Southern England and Belgium and involve the treatment of four lakes.

Further contracts are expected to be awarded within the next few months in Austria and the Netherlands.

North America

During the quarter PHK received a further order from US licensee SePRO Corporation for inventory for the North American spring season. Preparations continue for a large application valued at more than \$550,000 to a recreational lake in Quebec. This project is confirmed with the timing currently being finalised.

PHK participated during the quarter in the North American Lake Management Society's (NALMS) Annual Conference and Exhibition in Banff, Canada. The conference program featured 11 presentations on Phoslock organised within three Special Sessions. Speakers

included five researchers from Europe and Canada who have been actively working on Phoslock related topics, as well as representatives of Phoslock licensees in Germany, the U.S. and Brazil.

The NALMS conference is North America's premier lake management event and the incorporation of the three Special Sessions into the program is a major achievement for PHK that will undoubtedly significantly increase the profile of Phoslock in the region.

Australia

PHK completed several smaller sales in Australia during the quarter for both new and existing customers.

Production

The manufacturing facility ran the quarter on normal shifts, with all production being shipped immediately. Most shipments this quarter were to Brazil. A shipment was made in late December to SePRO in the U.S.

Phoslock Patent

As previously announced, PHK has lodged a Subsequent Patent Application to protect the core technology. The examination and approval of the new patents in some 50 countries (all EU countries are covered by one examination) are currently in progress. Each Patent Office has its own system of dealing with patents, including the speed at which it reviews patents and how comments are provided to applicants.

To date, substantive comments have been received from the U.S. and European Patent Offices. Replies providing more information or clarification of technical issues have been provided and we are currently awaiting approval or further clarification requests.

Financial Commentary

Cash receipts from customers and government grants for the December quarter were \$1,009,000. A further \$302,000 was received in early January, 2017. This takes cash receipts for the December quarter to \$1.3m.

Cash costs, excluding inventory purchases and interest and R&D, were \$652,000 (\$669,000 in September 2016 quarter). Product purchases for the quarter were \$892,000 and nearly \$1.7 million for the July-December 2016 period.

PHK is undertaking a number of Research & Product Development projects. Direct expenditure on R&D in the December quarter was \$63,000 with \$80,000 expected in the March quarter. A significant proportion of the direct product development expenditure and indirect apportionment of salaries relating to the R&D is expected to be refunded in the FY2017 R&D grant claim.

During the December quarter, PHK entered into a \$1 million 12 month loan facility to fund inventory, debtors and capital expenditure. This short term funding is necessary to meet the timing gap between inventory build-up, sales and cash receipts.

As at 31 December, 2016 the Company had cash on hand of \$408,000. In addition, receivables were over \$850,000 and inventories \$700,000 (at cost).

Mr Laurence Freedman AM
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PHOSLOCK WATER SOLUTIONS LIMITED (PHK)

PHK produces *PHOSLOCK*, a patented technology which was developed by the Commonwealth Scientific and Industrial Research Organisation (“CSIRO”). PHK has lodged a subsequent patent application to protect the core *PHOSLOCK* technology which is in an advanced stage of being granted in some 50 countries, with the intention of extending the core *PHOSLOCK* technology to 2033.

PHK is headquartered in Sydney, Australia and has offices in Brisbane, Shanghai, China and Bremen, Germany covering Europe/UK and South America. PHK is represented by licensees, distributors and agents in ten other countries including Bentophos in Germany, SePRO Corporation in the United States and HidroScience in Brazil.

PHK has signed agreements in China with five environmental companies to gain access to their clients for remediation work on lake, river and canal projects. These include Hangzhou Enjoy Water Technology Co. Ltd, 29% owned by Shenzhen Stock Exchange listed Xingyuan Environmental Technology Co. Ltd (www.xingyuan.com) and Nanjing Zhongke Water Environment Co. Ltd.

PHOSLOCK is a certified NSF/ANSI Standard 60 product - North American Drinking Water (see websites ansi.org and scc.ca). This certification enables *PHOSLOCK* to be applied to water bodies used for human consumption.

PHOSLOCK has been certified by Chinese Research Academy of Environmental Sciences (CRAES). *PHOSLOCK* is classified as a general environmental substance. It is neither hazardous nor harmful to the environment. *PHOSLOCK* has low risk to hydro ecological system.



North America



China

Phoslock Water Solutions Limited is listed on the Australian Stock Exchange (ASX Code: PHK).

For more information about *PHOSLOCK* Water Solutions and *PHOSLOCK* please visit our websites: www.PHOSLOCK.com.au or www.PHOSLOCK.eu (Spanish, Italian, Dutch and German) or www.PHOSLOCK.com.br (Portuguese) or www.PHOSLOCK.cn (Chinese).

***PHOSLOCK* BLOG** on *PHOSLOCK* news and current Water Issues – see www.PHOSLOCK.com.au and look for *PHOSLOCK* BLOG icon in top right corner of the Home Page.

ABOUT PHOSLOCK – the Product

PHOSLOCK is a unique water treatment product which binds phosphorus in water bodies such as lakes and dams. It provides a protective permeable layer to sediments, permanently preventing the re-release of phosphorus.

Retention of phosphorus reduces the level of algae by depriving it of nutrients. This in turn improves water quality, both for human use and aquatic life as well as preventing and controlling Harmful Algal Blooms (HAB).

PHOSLOCK is primarily used as an in-water solution for lakes, drinking water reservoirs and other recreational water bodies. It is also used as a preventative product to absorb phosphorus before it is transported into water bodies by being applied in storm water basins and inflow channels, rivers and canals.

PHOSLOCK is approved for use in North American Drinking Water Reservoirs via NSF/ANSI Standard 60 Certification. This certifies that *PHOSLOCK* is safe for use in drinking water.

PHOSLOCK has been certified by Chinese Research Academy of Environmental Sciences (CRAES). *PHOSLOCK* is classified as a general environmental substance. It is neither hazardous nor harmful to the environment. *PHOSLOCK* has low risk to hydro ecological system.

PHOSLOCK has been used on many high profile water bodies in Europe/UK, North America and Australia. To date over 300 initial and follow-up applications have been successfully made.

Over 50 peer reviewed scientific and technical papers, have been published on *PHOSLOCK* in leading scientific journals. For access: www.PHOSLOCK.com.au