



ASX Code: **PHK**

Share Price: **A\$0.012**

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

52 Week Low: **A\$0.022**

Issued Shares: **367.9m**

Market Cap: **A\$44.1M**

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PHK BLOG on Water Issues:

www.phoslock.com.au

ASX ANNOUNCEMENT

Thursday 28th July, 2016

Business Progress

Key Points:

- Second Chinese Sales Marketing Agreement signed
- Multi-fold opportunities identified in several Chinese Provinces
- Pampulha project underway; \$0.5m received from first shipments
- Successful capital raisings and conversion of Convertible Notes results in stronger Balance Sheet and cash for growth
- Current Contract Work in Progress in excess of \$5 million

Highlights

During the March quarter, PHK signed a second Chinese Sales/Marketing Agreement with Nanjing Zhongke Water Environment Co. Ltd (NZW), a leading environmental company with sales and engineering work throughout China. The Agreement covers jointly working on lake, river and canal remediation projects in China. The first joint application is currently taking place.

A number of smaller paid trial applications in China were undertaken during the quarter with potential customers. Successful trials will lead to significant projects.

Applications on the \$10 million Pampulha Brazil project have commenced with \$0.5 million of product purchased and paid for in June quarter with a further \$0.6 million forecast in the September quarter.

Business activity for the June 2016 quarter remains strong, with major or noteworthy applications in China, Brazil, United States, Canada, Germany and Holland. Sales FY15-16 were approx. 100% higher than FY 14-15.

Current Contract Work in Progress is in excess of \$5 million.

During the June quarter, the Company raised \$4.1m (net of expenses) from a Share Placement to sophisticated investors and a Share Purchase Plan which was widely taken up by shareholders. \$1.4m Convertible Notes were converted into shares during the quarter.

The capital raising has resulted in an improved Balance Sheet and sufficient working capital to grow the business.

China

PHK China has signed a new three year “Frame Sales Contract”, covering term, tonnes and price with Nanjing Zhongke Water Environment Co. Ltd (NZW), a leading environmental company with sales and engineering work for water projects throughout China. The contract is for three years and covers 2,000 tonnes pa. PHK China will provide engineering expertise and assistance in incorporating PHOSLOCK into NZW. The Company’s business areas cover urban rivers, water reservoirs, natural lakes, wetlands and farm pollution.

Working closely with NZW, PHK China has already commenced work on three small applications. A number of large opportunities have been identified, with initial work already started on a complex lake system.

PHK China has also undertaken an important pilot project, on full commercial terms in Zhejiang province, in a major inner city canal with two applications in two months. Both PHOSLOCK and a nitrogen product were applied to a section of an inner city canal. The results for the isolated section of the canal showed an 80% reduction in Phosphates (P) and a 55% reduction in ammonia (N). These results lay the foundation for future PHOSLOCK applications to inner city canals, potentially a very large business segment in China.



Application to inner city canal in Zhejiang province

Chinese Certification of PHOSLOCK

To increase the acceptance of PHOSLOCK in the Chinese market and particularly government contracts, PHK and Phoslock China have embarked on securing additional certifications from Chinese technical agencies. These will cover the equivalent of PHK’s certification in North America for human drinking water.

South America

Brazil

The application of PHOSLOCK to Lake Pampulha in Brazil commenced during the quarter and receipts totalling approximately \$0.5 million were received. The forecast sales from this project for the next quarter are \$0.6 million, with sales for the final quarter of the calendar year of \$0.7 million.

Although the project has only recently begun, independent monitoring undertaken by municipal authorities has shown an improvement across all key water quality parameters, with targets set for the period having been achieved.



Application to Pampulha Lake, Brazil

In addition to the Lake Pampulha project, PHK's Brazilian licensee, Hidroscience, undertook a second application of Phoslock to a drinking water reservoir in North Eastern Brazil during the quarter. This application is the second of three applications scheduled for 2017, with the final application planned for October-November. Product for this application is to be ordered and imported in coming weeks. The total value of this project is close to \$0.5 million.



Application to reservoir near Salvador, Brazil

Uruguay

Substantial interest has recently been generated in Uruguay, with Phoslock having been recommended for use by independent scientists in the treatment of one of the country's most important drinking water reservoirs. During the quarter, PHK appointed a licensee for Uruguay. Trials on the reservoir are expected to commence later this year and, if successful, could lead to a multi-million dollar application in 2017.

Europe

Applications of Phoslock to an urban lake in the Netherlands and several smaller lakes in the UK, Germany and Austria took place during the quarter. A number of medium to large-scale applications are also expected to be undertaken in the first quarter of 2017. These include a number of projects in the U.K., Germany and Austria, along with the company's first application in Belgium. The projects have a total value in excess of \$1 million.

North America

U.S.

U.S. sales of Phoslock continue to grow, with the company's U.S. licensee, SePRO Corporation, reporting a 34% increase in sales in the year to date. This increase has been driven by an increased uptake of the product by SePRO's preferred applicators, as well as a number of larger projects in the last quarter that have taken place in California and other Western U.S. States.

SePRO Corporation has placed multiple orders with PHK since the start of the year, including a recent top-up order to replace depleted inventory in California. This order was in excess of the company's forecasts at the start of the year, resulting from increased demand for the product in the Western U.S.

A number of other important applications are scheduled for the remainder of the calendar year, including an innovative project in Florida where Phoslock will be continuously dosed into the inflow into one of the State's largest and most eutrophic lakes.

Canada

Sales in Canada since the beginning of the year are in excess of C\$200,000, 50% higher than 2015 on a YTD basis. As reported in April, the Company undertook its largest ever project in Alberta, in an eutrophic city lake in the south of the Province. The results of this treatment are being monitored and are expected to generate further interest in the product in other regions of Canada.



Henderson Project in Alberta, Canada applied in April

The Company currently has a number of projects in its Canadian pipeline, ranging in value from C\$0.5 million to C\$15 million. The first of these is close to being confirmed and is expected to take place in Quebec, either later this year, or early in 2017.

Australia

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

Larger Projects

The Company is working on a total of eleven large to very large projects (\$1m - \$100m) in Asia, South America, North America and Europe, including the Pampulha project in Brazil. At this stage no Chinese large projects are on this list, but this could change over the next six months.

Phoslock Production

The manufacturing facility ran the quarter on normal shifts, except during the Chinese holiday period in April, when it was closed for maintenance.

Phoslock Patent

As previously announced, PHK has lodged a subsequent patent application to protect the core PHK technology which is in an advanced stage of being granted.

The examination and approval of the new patent in nearly 50 countries (all European countries are covered by one examination) is currently in process and expected to be completed over the next 6-18 months, depending on the jurisdiction. The US patent (first filed for examination on 13 March, 2015) is viewed by our patent attorneys as the most likely to be approved first. PHK has no control over the timing various patent offices' take to examine, comment, and seek clarifications or amendments on the patent wording. For more information of the PHOSLOCK Patent approval process please see our Blog on the website - phoslock.com.au.

Financial Commentary

During the June quarter, PHK raised \$4.1m (net of expenses) from a Share Placement from sophisticated investors in Australia & China and a Share Purchase Plan.

\$1.4m of the Convertible Notes were converted into PHK shares on 18 June. Accrued interest on the Convertible Notes, was paid to the end June 2016. The maturity date of the remaining \$650,000 of Notes has been extended to 30 June, 2017, subject to Shareholder approval. A General Meeting will be held on 12 August, 2016. The company also repaid all loans outstanding in May and June.

The final four repayments totalling \$322,000 for Convertible Security to The Australian Special Opportunity Fund, LP, a New York-based institutional investor, managed by The Lind Partners, LLC were paid in cash during the quarter.

Cash receipts for the June quarter were \$753,000. Cash costs, excluding inventory purchases and interest, were \$770,000. This is higher than earlier quarters and includes several one-off costs as well as costs of setting up the Shanghai office and China salaries and several research and product development projects. In addition; \$443,000 was spent on inventory. Most was sold but not paid for as at 30 June.

As at 30 June, the Company had cash on hand of \$1,362,000. In addition, receivables amount to \$800,000 and inventories of \$500,000 with no debt (other than the June 2017 Convertible Notes) and minimal creditors.

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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 approx. 50 countries, with the intention of extending the core *PHOSLOCK* technology until 2033.

PHK is headquartered in Sydney, Australia and has offices in Brisbane, Shanghai & Sichuan, China and Bremen, Germany covering Europe and South America. PHK is represented by licensees, distributors and agents in ten other countries including SePRO Corporation (www.sepro.com) in the United States and HidroScience in Brazil.

PHK recently signed an agreement with the Shenzhen Stock Exchange listed Xingyuan Environmental Technology Co Ltd, (www.xingyuan.com) which covers working jointly on lake, river and canal remediation projects across China.

In June, 2016, PHK signed a frame sales agreement with Nanjing Zhongke Water Environment Co. Ltd, a leading environmental company with sales and engineering work for water projects throughout China.

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 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.com.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 that 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 used on many of high profile water bodies in Europe/UK, North America and Australia. To date over 280 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