

ASX Announcement

28th January 2021

December 2020 Quarterly Update

Phoslock Environmental Technologies (ASX: PET) today provides a trading update for the quarter ended 31st December 2020.

Financials

PET's quarterly cash flow report shows a \$3.5m in outflows from operating activities mainly due to increased external accounting, consulting and legal costs associated with the investigation into accounting irregularities in the Company's China operations. Payments for the quarter were \$4.3m which is higher than payments reported in the prior quarter of \$3.2m

Receipts from customers were \$0.7m for the quarter. This compares to receipts from customers of \$1.8m recorded in the prior quarter.

The key cash flows drivers in Q4 were:

- Cash Receipts from Customers primarily Brazilian Projects \$0.7m
- Cost associated with China Investigations \$(1.5)m
- Manufacturing Cost, including restructuring \$(0.9)m
- Staff costs, including one off restructuring costs \$(0.8)m

Investigation into accounting irregularities, China

PET announced on 8 October 2020 that KPMG had reported its preliminary findings into suspected accounting irregularities relating to PET's China operations.

The Board has identified fraudulent activity, including false accounting and falsification of invoices and of service contracts where PET or its subsidiaries are the recipient, potential improper tax reporting and misappropriation of funds. Several China-based employees have been either stood down or terminated in relation to these matters. It was also confirmed that several previously undisclosed related party transactions took place.

Further investigations were undertaken to determine the full extent of those, and possibly further, irregularities and to quantify the impact on the company's finances and accounts.

In addition to the work being undertaken by KPMG, PET's legal team retained an experienced corporate finance consultant specialising in financial due diligence to be based at PET's China office and to provide assistance and support to the company. That assistance included, but was not limited to:

ASX Code: **PET**

Share Price: **A\$0.245**

52 Week High: **A\$0.82**
52 Week Low: **A\$0.19**

Issued Shares: **625.0m**

Market Cap: **A\$153m**

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- Help with the quantification of losses associated with any malpractice and assistance with related asset recovery;
- Arrangement of on-site forensic investigations into books and records to prepare for the reconstruction of the company accounts;
- Recommendations on new procedures and payment protocols; and
- Interim management of the business and approval of cash payments, including suppliers' payments, wages and salaries, statutory payments and reimbursements.

Measures were also taken to protect the company's assets, including cash reserves, and intellectual property while the investigations continued. All company operations and assets outside of China are unaffected by these matters, including significant cash reserves on deposit in Australia.

While the investigations into the matters in China progressed, the Company:

- Implemented a review of all current China contracts and contractual arrangements with third parties, including sub-contractors and distributors, to help provide a sound basis for re-evaluating the company's near and mid-term expectations for revenue generation in China;
- Commissioned an independent market review of the waterways remediation market in China to help assess our opportunity in the region and better inform decisions relating to organisation, structure, location etc; and
- Implemented changes which will strengthen PET China's financial reporting procedures, delegated authority policies and general risk management framework.

In addition, company policies and procedures were updated and strengthened, which included disseminating formal delegated levels of authority and dual / cross border authorisation for all banking transactions. And to be able to better identify and assess potential risks such as financial, operational, environmental, and legal risks the Company conducted a deep dive review that enabled the production of detailed risk management strategies and business continuity plans.

Lodgement of Accounts and suspension from trading

On 23 December 2020, the Company announced that ASIC had granted an extension under subsection 340(1) of the Corporations Act 2001 (Cth) for lodgement of the financial accounts for the half-year ending 30 June 2020 until 31 January 2021. The Company expects to meet that deadline.

PET's shares were voluntarily suspended from trading on 21 September 2020, pending the outcome of investigations into the irregularities in China and the release of revised accounts.

Business update

The Company progressed the restructuring of its operations in China and a comprehensive and systematic review of all current China contracts and contractual arrangements with third parties, including sub-contractors and distributors. Completion of these programs will provide a sound basis for re-evaluating near and mid-term expectations for revenue generation in China.

The recruitment of a new General Manager for our China business is nearly completed along with an independently commissioned review of the market and PET's market access strategy. PET will provide further details of this in due course.

Importantly, a number of current projects have been reviewed and confirmed as complying with PET's new governance standards and improved management processes. This includes strategically important trial work which is ongoing in Dianchi Lake, the largest freshwater lake in Yunan Province. Several smaller treatments have also been completed in the second half, including Yutan Reservoir

(Chongqing), Lianshihu Reservoir (Beijing), Wuhan South Lake (Wuhan, Hubei Province), and Tingpang River (Taizhou, Zhejiang Province).

Outside of China, PET projects continued in North and South America and Europe.

In Europe, new orders were received for work in The Netherlands which, coupled with previously advised treatments in Italy, UK and Belgium, indicate Europe's ongoing attractiveness as a strong market for Phoslock's technology. As previously advised, several larger projects in Germany and the Netherlands have been delayed due to COVID interruptions. Discussions continue with the authorities involved in those projects, with treatments expected in 2021. As previously advised, projects in the Nordic also were progressed in the second half of 2020, with further work expected in 2021.

In North America, a large order was received from Sepro for stock at the end of 2020. Sepro remains confident of improved post COVID progress in 2021 and PET has announced the appointment of a Commercial Lead for the Company's USA business.

Since 30 June 2020, the Group's operations have continued to be impacted by the Covid-19 pandemic and related government actions imposed in key markets to slow the spread of the virus. As the global outbreak of Covid-19 continues to progress and evolve, it is still quite challenging to predict the full extent and duration of its impact on the Group's business activities.

Appointment of Director

On 28 January 2021, PET announced the appointment of Mr Barry Sechos as a non-executive Director. Mr Sechos has extensive experience on public company boards and as a business executive and corporate lawyer.

This announcement has been approved by the Managing Director and Chairman

Matthew Parker
Company Secretary

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ABOUT PHOSLOCK ENVIRONMENTAL TECHNOLOGIES LIMITED (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 and Manchester and manufacturing operations based in Changxing, China. PET is represented by licensees, distributors, and agents in ten other countries including SePRO Corporation in the United States and HidroScience in Brazil.

Phoslock® is a proprietary and unique water treatment product that permanently binds excess phosphorus in the water column and sediments, inhibiting the growth of Harmful Algal Blooms (HAB).

Phoslock® is certified to be used in drinking water in North America, Europe, Brazil, Australia and China. Along with Phoslock®, PET also supplies zeolites and specialised strains of bacteria that address water pollution issues.

For more information visit www.phoslock.com.au