



ASX Announcement

25th May 2021

Managing Directors address to the 2021 Annual General Meeting

Good morning. I would like to also add my welcome to shareholders who have joined us here in Melbourne and to others who are joining us via the webcast.

As the Chairman has noted, the past 12 months have been a very challenging, frustrating and disappointing period for the company and for you as shareholders.

Since being appointed Managing Director on this day exactly 12 months ago, I have been focused on the following objectives:

1. Firstly, to help fully identify and address the issues in China,
2. Secondly, to respond to the different set of challenges posed by the COVID pandemic, and
3. Thirdly, to develop and execute on a sustainable growth plan for the business that will generate long term value and good returns for shareholders.

While attending to these important objectives, I have had the opportunity to closely assess our technology position and the market opportunity we have as a business. And despite the challenges of this past year, I remain extremely confident about our prospects.

I firmly believe that:

- The Phoslock technology has a clear competitive advantage and as we know a proven track record with over 300 projects in more than 20 countries around the world.
- We are servicing a large and growing market, with increasing awareness and a higher priority being given to addressing water quality issues around the world.
- And we have a strategy in place to diversify both our geographic spread and our product and service offerings.

Today, I would like to update you on our progress in resetting our China business.

ASX Code: **PET**

Share Price: **A\$0.245**

52 Week High: **A\$0.58**
52 Week Low: **A\$0.19**

Issued Shares: **625.0m**

Market Cap: **A\$153.2m**

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outline our growth strategy and provide some insight on current projects and operations.

The mismanagement and fraudulent activity relating to our China operations is a significant set-back for the business. We will take some time to rebuild that business. I know there is strong interest among shareholders in relation to the pursuit of those responsible for the fraudulent activity and the possible recovery of the losses incurred by the company.

We are working with our legal advisers and relevant authorities in respect of those matters. The issues involved are complex and it will be some time before we have clarification on the outcome of those ongoing discussions. I want to ensure you, however, that we share your anger and frustration and will look at all available avenues.

We have previously outlined the steps taken and changes we have implemented in China to ensure our business operates on a more professional, accountable, and transparent basis.

I would like to highlight some of those changes again today.

- When the irregularities became evident, we engaged independent specialist consultants to assist with investigations and to support the ongoing running of the business.
- We undertook 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 assessing the status of ongoing work and pending projects.
- We 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, and go-to-market strategies.
- In terms of internal changes, we strengthened PET China's financial reporting procedures, delegated authority policies and general risk management framework; and
- We have recruited new experienced management to help lead the rebuilding of the business on a strong and professional basis.

Our objective now is to secure additional remediation projects in China, which remains an important and valuable market for the company. We are pushing forward with our new marketing plans, and I am confident we will see positive results over the next few years.

The events in China have reinforced our view that we must be a more diversified business. We will diversify our customer base; we will diversify our geographic markets; and we will diversify our product offerings.

Our new growth strategy is focused on expanding Phoslock's market presence and revenue base across global markets in Europe, the Americas and Asia Pacific to complement our position in China. We have an existing presence in these markets, an

excellent track record of successful Phoslock treatments, and ongoing projects and trial work.

Over the next 2-3 years, I would like to see our revenues reflect a well-balanced split amongst our target regional markets. In support of that objective, we are investing in additional resources to support geographic expansion, including the recruitment of experienced and senior commercial managers and additional distribution partnerships.

We have recently recruited a new commercial lead in the USA, and we are currently recruiting commercial leads for Canada and for Europe. This past year, we have also registered and opened our US subsidiary office in Milwaukee.

Our diversification strategy is not only about targeted expansion into more geographies.

We are also looking at developing new opportunities within our markets, by promoting the use of our technology in preventative as well as remediation treatment settings and across a broader range of water bodies.

And we are undertaking a comprehensive review of our R&D programs to ensure they are focused, closely managed and represent investments that are likely to generate meaningful future value. We will keep shareholders updated on progress with that review.

During this past year, we announced that the earlier decision to invest in a second manufacturing facility in China was now under review. This review is being undertaken to ensure we optimise supply chain flexibility, alignment to strategy and to meet considerations relating to tariffs, raw material supplies and other costs.

We are in the final stages of the first phase of that review, which will deliver recommendations to management and the Board in the third quarter of this year.

I would now like to update you on the business and how we are currently seeing market conditions and opportunities.

COVID-19 has had a material impact on our business.

Government authorities involved in the assessment of proposed water remediation projects have been understandably distracted by other priorities. Funding of some approved projects has been diverted to other needs; and COVID-related restrictions on movement have impacted on-site activity and business development activity.

These impacts have combined to delay the commencement of some projects and to defer consideration of proposed new projects. Pleasingly, we have only seen a very limited number of projects cancelled, but there is still considerable uncertainty over the timing of various pending projects.

Of course, the deterioration of water quality in those areas continues and the need to address that situation becomes more apparent. As we see these COVID-related impacts ease, we expect to commence our pending projects and secure additional contracts.

In terms of current activity, we have contracted projects underway in Europe, South America and China and trial work and prospective projects either underway or pending in those regions as well as in North America and closer to home here in Australia and New Zealand.

In Europe, we have completed a number of smaller projects in the Netherlands and Germany in recent months and new projects are commencing in Finland and Norway soon. A small project was also recently confirmed in Denmark.

Several significant projects are awaiting funding approval and contracts to be signed and I hope to have positive news in relation to those projects in coming months.

In South America, new projects commenced in both Pampulha and Rio de Janeiro – with additional treatments scheduled in both areas through the balance of this year. We also have ongoing projects in Bahia state and Rio Grande do Sul. Market development in Brazil has been very positive and we are particularly pleased with the work of our licensee, Hydrosience.

We recently began discussions with a potential distribution partner in Uruguay, which is an important South American market and a valuable opportunity for Phoslock.

Current activity in the US is focused on leveraging successful trial work in a number of states, including Washington State and Michigan. Recent discussions with local administrators have been positive and planning is underway to scope remediation works on a larger scale in those trial areas.

New opportunities have been identified in other areas of the US including Indiana, Minnesota, California and Ohio and work continues in Utah, although this remains a long term opportunity that is hard to quantify at present.

Several mid-sized projects have been agreed in both the City of Orlando and Lady Bird Lake in Texas and the evaluation of recent trials in multiple lakes in Florida is also ongoing.

Canada presents as an extremely important market for Phoslock, which is why we are investing a considerable effort in finalising our regulatory approval. Subject to that approval being secured, we have projects ready to commence in both Quebec and Ontario and discussions are underway in several other Canadian provinces.

In China, our new team is closely managing ongoing work and executing on marketing and engagement plans for new projects. Some 12 projects are currently underway, located in many different provinces. The demonstrated success of these projects – and other remediation works we have successfully completed – is key in securing new opportunities in this very important market.

So – as you can see – there is considerable current activity underway and a strong pipeline of prospective projects on which we are working.

This is a hard business to forecast, given the inherent uncertainty around timing of projects. And this has been made more challenging due to the COVID-related delays.

I think it is important, however, that I provide you with some insight as to the basis of the guidance I have provided around returning to profitability this financial year.

You will see from this slide that I have grouped our forecast volumes for the current year into three categories:

- ‘Contracted sales’ refers to those projects that are currently underway – or imminent – and for which contracts have been executed and in place.
- ‘Heads of Agreement’ refers to projects that have been negotiated with our customers and, for the most part, where pricing and terms have been agreed. These projects, however, have not been locked in so far as a firm start date and the final contract is still to be executed. It is commonly the case that projects are not the subject of final contracts until they are about to commence.
- The third category – ‘high probability’ – refers to projects that are the subject of ongoing discussions with potential customers but where we have a high degree of confidence that those discussions will advance to both a head of agreement and, ultimately, a final contract.

Our objective, of course, is to progress all prospective work to a final contract stage as quickly as possible.... but it is equally important that we continue to develop and advance new project opportunities and have a suitable balance of work that is expected to be completed throughout any one year.

It is also likely that the composition of the projects in both the ‘heads of agreement’ and ‘high probability’ stages will change as discussions continue and potential new projects are identified.

We are currently assuming that all the projects represented here will be invoiced in this current financial year and – on that basis - I expect the company to post a small Profit Before Tax.

I am confident we can build on that result over subsequent years as we cycle out of the COVID-related business environment and continue to execute on our growth plans.

Before handing back to the Chairman, I would like to comment on our ASX trading status. Our objective is to resume trading as soon as possible, but it is important for shareholders to understand that this will take some time.

The auditors’ opinion on our 30 June accounts for 2020 and our full year accounts in the 2020 year is one of the matters that will impact on that timing - and there are other steps that we are continuing to address.

These other interconnected activities including (but not limited too), addressing corporate governance requirements, board make up and renewal, conclusion of the company’s investigation referred to in the Annual Report of FY2020, Completion of the audited 30 June 2021 half year review, and appropriate guidance for outlook financial year FY 2021, including any residual impacts of COVID and impact of potential operational improvements and strategic initiatives.

This is a very high priority for the Board and management, and we share your concerns that it be resolved as soon as possible.

In closing, let me reiterate my confidence in the future of this business.\

- Phoslock technology is world-leading, proven to be effective and has a clear competitive advantage.
- The market for our products and services is large and continues to grow.
- We have a clear strategy that will mitigate risk and grow value in the business by ensuring we are more diversified across geographic markets and additional market segments.
- Our response to the issues in China has been comprehensive and has provided a catalyst for strengthening and improving our governance systems in all parts of the business.
- And we have a talented and motivated team of people who will play a key role in our future growth and success.

Finally, before handing back to the Chairman, I would like to acknowledge some significant changes in personnel.

At the end of this meeting Michael Kotowicz will be stepping down as our investor relations adviser and will be replaced by Greg Slade. I wanted to thank Michael for his contribution to PET over many years and welcome Greg.

Also, as you all know, our Chairman will be stepping down at the end of this meeting. On behalf of the management and board of PET throughout the many years of his involvement I want to thank Laurence for his significant contribution to the Company over a long period. Laurence's vision and confidence in the potential of the Phoslock technology, which he saw and began developing many years ago – and his strong, personal and financial support – have been integral to the development of the product and to the opportunity we now have to grow a global and successful business.

I know he will follow our progress with great interest.

Thank you, Laurence.

David Krasnostein will be stepping in as Chairman effective at the end of today's meeting and I very much look forward to working with David as together we grow PET profitably and sustainably.

This announcement has been approved by the Chairman and Managing Director

Laurence Freedman AM
Chairman

Mr Lachlan McKinnon
Managing Director and CEO

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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, Bremen (Europe) and Manchester (UK). PET also has registered entities in Canada and the USA 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 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 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