

ASX ANNOUNCEMENT

Tuesday 31st October, 2017

Business Progress

Key Points:

- FY17-18 Sales forecast of \$22m, up 420% on FY16-17
- Changxing Factory now commenced production
- Work commenced on PWS's largest project ever
- Ms. Brenda Shanahan joins the Board
- Placement and Share Purchase Plan successful
- Company is debt free, \$6m in bank plus \$3m debtors and inventories

CHINA

Major transformation to the Phoslock China business:

- New low cost factory, with significantly increased production;
- New products with ability to treat complex contaminants;
- New business includes design, engineering and construction

The Beijing office is now fully functional with 17 professional employees, working on five projects for this financial year. PWS is building a solid pipeline of a number of projects for the financial year and additional projects with an aggregate value in excess of \$40 million for the next financial year.

Work has commenced on the Group's largest project to date, a large inner city canal. The formal signing ceremony for this project will be held shortly, at which time details of the project size and scope will be released.

Changxing Factory

The new multi-purpose manufacturing facility in Changxing, Zhejiang commenced operations in August. After a commissioning period the factory has reached a production level of 30-35 tons per day and is building towards 40-45 tons per day. This will take the annualised production rate to 15,000tpa, with further upgrades possible.

ASX Code: **PHK**

Share Price: **A\$0.19**

52 Week High: **A\$0.24**

52 Week Low: **A\$0.068**

Issued Shares: **475.6m**

Market Cap: **A\$90M**

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PHK BLOG on Water Issues:

www.phoslock.com.au

The factory is completely 'green', all discharged water is pollution free and there is no air pollution discharged. The dryer unit is powered by gas and the remaining power sources come from the local electricity grid.

Included in the facility are extensive R&D facilities, where work is currently underway on additional water treatment products, including permeable Phoslock bricks, to be used in running water, rivers and canals.

INTERNATIONAL BUSINESS

International PWS sales and other revenue, excluding China, was approximately \$4 million for FY2016-17. The current forecast is for this to grow by 50% to \$6 million in the 2017/18 year.

Phoslock **Europe** has won a tender to restore a large lake in Eastern Europe. Project documentation is currently being prepared and further details of the project, which will have a total value in excess of A\$1.2 million, will be announced when the contract is signed. Further applications are planned in the Netherlands, Germany and the United Kingdom during the European winter.

In **Brazil**, the Pampulha application continues and is now three-quarters complete. Our Brazilian licensee, Hidroscience, also completed an application valued at more than A\$300,000 on a drinking water reservoir in North Eastern Brazil during the quarter. Hidroscience also secured a number of new projects during the quarter, valued in excess of A\$400,000. One of these is an urban lake in Northern Brazil, while the other two are pilot projects on drinking water reservoirs in regions where Phoslock has previously not been used.

During the quarter, PWS was awarded a \$0.6 million contract to treat a 40 hectare lake in Quebec in **Canada**. The project is currently in progress and will be completed this week. This is the first time Phoslock has been used in Quebec and is seen as a pilot project by the Provincial Government and lake stakeholders. A number of other projects are under consideration across Canada for 2018, with several being close to being finalised.



Application of Phoslock to Lac Bromont, Quebec, Canada

FINANCIAL COMMENTARY

Cash receipts for the September quarter were \$1.1m. Projects from our new Chinese business commenced this quarter. Chinese debtors, particularly government contracts, have a 90 to 120 day payment period hence there is a timing difference between works undertaken and payment.

Cash costs, excluding inventory purchases, interest and R&D, were \$1,164,000 (\$822,000 in previous quarter). The increase is mainly from our Chinese operations, particularly the Changxing factory and the Beijing contracting and implementation team. Product and raw material purchases for the quarter were \$1.3m (\$0.7m for the previous quarter). This reflects the commencement of operations at the Changxing factory and significantly higher production.

Capital expenditure for the September quarter was \$127,000, reflecting the final major capital expenditure on the factory. Total capital expenditure for the Changxing factory was in line with the original budget.

In September, PWS completed a placement of 26 million PWS shares at 17.5 cents per share to 38 sophisticated investors, including six institutional investors in Australia, Singapore and Hong Kong. The placement raised \$4.6 million, of which \$0.6m was taken up by two Directors and is therefore subject to shareholder approval at the Company's AGM.

In October, PWS undertook a Share Purchase Plan (SPP) on the same terms as the Placement to all Australian and New Zealand registered shareholders allowing each holder to take up a maximum of \$15,000 of shares. 362 shareholders or 24% of all eligible shareholders took up all or part of their entitlement. The SPP raised \$3.5m and the issuance of 20.1 million new shares. The 24% participation rate is very high for a SPP.

As at 30 September, following the placement the Company had cash on hand of \$3.3m. In addition, receivables/debtors were \$1.7m and inventories \$1.5m (at cost). The SPP has not been included in this total.

On the 1st November, PWS will repay the \$1 million loan used to fund the capital expenditure for the Changxing Factory. **This makes PWS debt free, with some \$6m in cash and \$3m in debtors & inventories.**

ADDITIONAL BOARD CHANGES

Ms. Brenda Shanahan has been appointed a non-executive director. She has previously held executive positions, included Managing Director of W M Mercer Investment Consulting for Australia & Asia and was on their international board. She is a former Director of Equitilink Limited.

Brenda was previously a non-executive director of Challenger Financial Services, as an independent non-executive director of Challenger Limited, where she was a member of the Group Risk Committee, Group Audit Committee, Remuneration Committee and Nomination Committee.

She is currently a director of Bell Financial Group Ltd. and Clinuvel Pharmaceuticals Ltd. and on the Board of DMP Asset Management, is Chair of St Vincent's Medical Research Institute in Melbourne and Chair of the Aitkenhead Centre for Medical Discovery. Recently she was bestowed with an honorary Doctorate from Swinburne University of Technology.

This follows the appointment of Mr Zhigang Zhang, General Manager of Beijing BHZQ Environmental Engineering Technology Co. Ltd (BHZQ). Mr Zhang is a senior environmental remediation expert with over 30 years in the industry.

As previously reported, Hon. Pam Allan, after ten years, is retiring from the Board at the AGM.

PWS Annual General Meeting

The Annual General Meeting will be held at 10am on Thursday 23rd November, 2017 at The Westin Hotel, 1 Martin Place, Sydney. A Notice of Meeting has been sent to all shareholders and is also available on the PWS website or ASX website under PHK announcements.

Mr Laurence Freedman AM
Chairman

Mr Robert Schuitema
Managing Director

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PHOSLOCK WATER SOLUTIONS LIMITED (PHK)

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

PWS is an engineering and treatment products company for water remediation.

PWS recently formed a new company, Phoslock (Beijing) Environment Engineering Technology Co., Ltd to focus on engineering solutions for water environment projects as well as water remediation products such as Phoslock, zeolites and other solutions. Phoslock Beijing undertakes design, engineering, implementation and use of remediation materials for river, canal and lake projects. This is a significant broadening of the historical PWS business and enables it to undertake a broader array of projects in China and elsewhere, supplying both services and materials.

PWS has a large multi-purpose factory in Changxing, Zhejiang province, China, 150km inland from Shanghai, which manufactures its patented technology, *PHOSLOCK*, along with specialised other water treatment products.

PWS is headquartered in Sydney, Australia with offices in Brisbane, Beijing & Changxing, China and Bremen, Germany. PWS is represented by licensees, distributors and agents in ten other countries including SePRO Corporation in the United States, HidroScience in Brazil and Bentophos across the E.U.

PWS has four marketing and co-operation agreements in China with environmental remediation companies.

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

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

PHOSLOCK is a unique water treatment product that permanently 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).

While *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 enters water bodies by being applied in storm water basins and inflow channels, rivers and canals.

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 in the USA and Canada



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



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