

ASX ANNOUNCEMENT

Thursday 30th April 2020

Business Update

Key Points:

- China Projects and Factory production largely unaffected by CV19 crisis
- Some International sales may be delayed
- 2020 Revenue forecast: unchanged \$50-70m; (up 100% on FY2019)
- Balance Sheet significantly strengthened through Successful \$20m new Capital raisings
- Debt free, \$50m cash & receivables
- \$380m Global Project pipeline

Business Update

China

As previously advised, PET's China Projects and Phoslock[®] production at our Changxing factory have been largely unaffected by the Covid-19 crisis.

All three of PET China's current major projects are in Yunnan province, in south western China. This province has been essentially unaffected by Covid-19.

The contract value of the Shilongba restoration near Kunming, Yunnan province, has increased in size to \$25m, with some \$20m to be completed in FY2020. This project will include significant quantities of Phoslock[®], as well as installation of a water treatment technology, building of wetlands, and engineering technology. On completion, a five-year maintenance contract will commence, with a value of some \$5m pa.

Results from the 2019 application Xingyun Lake application of some 3,000 tonnes of Phoslock[®] have met or exceeded all criteria. A further 4,000 tonne application of Phoslock[®] to Xingyun Lake is planned over several campaigns during 2020.

A significant in-lake Phoslock[®] trial for Lake Dianchi is currently being finalised. This is China's eighth largest freshwater lake, 300 km², six times larger than Sydney Harbour, and ten times larger than Lake Xingyun.



Lake Dianchi (eighth largest freshwater lake in China)

Above Photo– looking north to Kunming City

Below Photo – looking south to the main body of the lake



PET China has several medium sized projects in the 100-500 tonne range which are in various stages of preparation for applications this year.

International

The pandemic has affected the commencement date of most first half International projects in Europe/UK, United States and Canada. A number of these projects have been moved to the second half of 2020.

We have made significant sales in Brazil since 2017. Several projects were undertaken this quarter including a large inner-city lake for drinking water in Rio de Janeiro. Work is scheduled to re-commence on existing Brazilian projects from May.

Capital Raisings

In April, PET undertook three capital raisings which, when completed, will generate some \$20m in new equity. A \$12m Institutional placement was extremely well supported; PET directors and officers personally undertook to invest \$3m (requiring shareholder approval at the 25 May Annual General Meeting); and a Share Purchase Plan (SPP), while currently capped at \$5m, is already oversubscribed. All three capital raisings were priced at the same 50c per share.

The SPP officially closes today. Demand has been very strong from our large retail shareholder base. The Board plans to wait until final numbers are received before deciding how to treat excess demand for new shares.

These funds will facilitate the Company's rapidly growing business opportunities in China and elsewhere. China's desire to get environmental remediation projects started is accelerating. The additional working capital these funds provide will enable us to commence large projects and to compete for the ever-expanding global remediation and corporate opportunities.

Changxing Factory

The Changxing factory closed for Chinese New Year between 20 January and 17 February. On restarting, a return to full capacity was achieved in early March and average production is now around 50 tonnes of Phoslock[®] per day. There are no shortages of raw materials and record daily production of 60 tonnes was achieved in early April. Large volumes of product will be required from May onwards for both the Xingyun and Shilongba projects in Yunnan province.

In January, PET signed a long-term lease for a second manufacturing facility in Changxing, only a kilometre from the existing facility. Triple the area of the existing facility, the expectation is to have a new production line of 20,000 tpa, doubling current production capacity. It is expected that the new production line will be completed by Q4 2020. Although a slight delay to initial plans, we anticipate no impact on implementation of any current projects.



New Changxing Facility. 12,600m² of factory and research space on one level

Pipeline

The current project pipeline remains at \$380m, comprising \$250m in China and the previously announced increased total of \$130m of new International projects. This covers the period to end 2023 and includes six Chinese projects and over 40 International projects.

The criteria for pipeline inclusion is that projects are at an advanced stage, dependent on final customer approval and/or financing. For multi-year projects, we have used our best current estimate of sales over the forecast period.

Financial Commentary

Receipts from customers and government grants were \$2.8m for the March quarter. Operating costs (excluding raw material purchases and taxes) were \$3.7m (\$2.3m for December 2019 quarter). During the quarter, the Company incurred a total of \$0.6m leasing costs for the new Changxing factory plus the annual rent of existing factory, both paid in advance. Other increases were higher employee costs, and one-off administration & corporate costs.

Manufacturing costs, including raw material procurement, were \$5.3m for the quarter (\$3.7m for December 2019 quarter). Some of these costs relate to project costs in the previous quarter as well as significant raw material procurement during the March quarter. As at 31 March 2020, PET held some 2,500 tonnes of finished Phoslock® at various storage locations (sales value \$7m), plus raw materials sufficient to manufacture a further 6,000 tonnes.

Net Cash Flow from Operations (NCFO) for the quarter was a \$6.5 million outflow, mainly due to \$5.3m outgoing for raw materials and project costs and \$0.6m for advance lease payments. Cash as at 31 March 2020 was \$9.4m.

The combined new equity raised from the Institutional placement, Director and Senior Executive Placement and SPP will be some \$20m before costs. On completion, PET will have Net Assets in excess of \$50m, mainly comprising liquid assets of Cash, Receivables and Inventories.

The Company remains debt free.

Annual General Meeting

The 2020 AGM will be held on Monday 25 May at 2pm. Due to restrictions relating to the Coronavirus Crisis, the AGM will be held as a Virtual Meeting.

Shareholders can attend the meeting by typing the url: web.lumiagm.com/340295613

The Meeting Notice has been posted to all shareholders. If you have not received it, it is, together with the Annual Report, available on the PET website – www.phoslock.com.au.

Shareholders are encouraged to vote online at www.investorvote.com.au before the AGM using Meeting Number 183799 and then enter your either “X” (Broker) or “I” (Issuer) ten digit SRN/HIN number.

Chairman Laurance Freedman AM stated:

“This has been a very busy and rewarding period for the Company.

“Not only have we successfully recovered our production and sales targets in China, but we have also raised some \$20 million of new capital in the most difficult market conditions in many decades. As a result, we are now able to bid on Very Large Projects, without Working Capital concerns. In addition, we are able to plan for further geographical and corporate opportunities.

“We have also added significant breadth and depth to the management team, both in Australia and in China. We welcomed our new CEO, Lachlan McKinnon, in January and most recently our new CFO, Matthew Parker (starting in May). In China, the addition of a number of highly experienced corporate, marketing and technical executives is already showing rewards.

“Finally, I am pleased to reiterate that the Company has some \$50 million in cash and receivables and remains debt free.”

This announcement has been authorised for release by the Chairman, Managing Director and CEO.

Mr Laurence Freedman AM
Chairman

Mr Robert Schuitema
Managing Director

Mr Lachlan McKinnon
Chief Executive Officer

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PHOSLOCK ENVIRONMENTAL TECHNOLOGIES LIMITED (PET)

Phoslock Environmental Technologies Limited is listed on the Australian Stock Exchange (ASX Code: PET).

Phoslock Environmental Technologies Limited (ASX: PET) is an international environmental company specialising in engineering solutions and water treatment products to remediate polluted lakes, rivers, canals and drinking water reservoirs.

PET has its headquarters in Sydney, Australia with offices in Brisbane, Beijing & Changxing, China, and Manchester, UK. PET is represented by licensees, distributors, and agents in ten other countries including SePRO Corporation in the United States and HidroScience in Brazil. PET has several marketing and co-operation agreements in China with various environmental companies and government agencies.

In 2017 Phoslock (Beijing) was formed to help remediate the massive Chinese algae and water pollution problem. This 100% owned subsidiary undertakes design, engineering, and implementation of rivers, canals, reservoirs, and lakes, along with construction of wetland areas. The significant broadening of the historical PET business allows for work on a greatly increased array of projects both in China and elsewhere.

PET owns the patent for Phoslock[®], a unique water treatment product that permanently binds excess phosphorus in the water column and sediments. This in turn inhibits the growth of Harmful Algal Blooms (HAB) that lead to detrimental effects to both aquatic and human life.

Phoslock[®] is certified to be used in drinking water in North America, Europe, UK, Brazil, Australia and China.

Along with Phoslock[®] PET also supplies:

- 1) Zeolites - a porous, natural material that can be applied to heavily polluted water to absorb nutrients such as nitrogen. Nitrogen is an important food source for the growth of harmful algae.
- 2) Bacteria. - Specialised types of bacteria can break down contaminants and organic matter that pollute water and cause human and water-borne diseases.

PET has a large multi-purpose factory in Changxing, Zhejiang province, China, 150km inland from Shanghai, which manufactures its patented technology, Phoslock[®], along with nutrient binding materials zeolites and bacteria. It also has an engineering and physical water management division.

The Changxing Factory recently received ISO accreditation from TUV Rheinland, a German engineering accreditation agency for:

ISO 9001 – Quality Control and Documentation Certification.
ISO 14000 – Environmental Management Standards Certification; and
OSHA 18000 - Health and Safety Management Systems.

PET has secured the exclusive global licence to manufacture, sell and distribute a unique new product which, after removing phosphorus from polluted water, can be reused. PET has established a development team to advance the product to full commercialisation. It is anticipated that commercial quantities of the new product will be available in later 2020.

For more information on the company, recent news and blogs, please visit our website:
www.PHOSLOCK.com.au