



ASX Code: **PHK**

Share Price: **A\$0.098**

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

52 Week Low: **A\$0.025**

Issued Shares: **367.9m**

Market Cap: **A\$36.0M**

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PHK BLOG on Water Issues:

www.phoslock.com.au

ASX ANNOUNCEMENT

Thursday 20th October, 2016

Business Progress

Key Points:

- Fourth Chinese Marketing Agreement signed
- Significant milestone achieved – water environmental certification received for PHK China
- Pampulha project sales over \$1.5m in July-December 2016
- Forecast Cash Receipts for December Quarter \$1.5 million
- Current Contract Work in Progress exceeds \$5 million.

Highlights

Business activity for the quarter was strong, with noteworthy applications in Brazil, United States, Canada and a number of small trial applications in China. Forecast sales for the first six months of FY16-17 are expected to be in the vicinity of \$2 million. Current contract work in progress is in excess of \$5 million.

PHK China has signed a fourth Chinese Sales/Marketing Agreement with Hangzhou Enjoy Water Environmental Technology Co. Ltd (“Enjoy Water”), The Agreement covers jointly working on lake, river and canal remediation projects, focusing on the greater Shanghai region.

PHK China has received an essential certification from Chinese environmental testing agency, the Chinese Research Academy of Environmental Sciences (CRAES).

In Brazil, September quarter purchases increased significantly. Project purchases for the July-December 2016 period are forecast to be around \$1.5m. Some of this product has already shipped, with the balance expected to be shipped by year end.

China

Sales/Marketing

Phoslock China has now signed its fourth Sales/Marketing Agreement in China, with Hangzhou Enjoy Water Environmental Technology Co. Ltd (“Enjoy Water”), 29% owned by Shenzhen Stock Exchange listed Xingyuan Environmental Technology Co Ltd (“Xingyuan”).

Enjoy Water is a leading supplier of waste water equipment throughout China. It has recently added a new division for cleaning up inner city canal networks, focusing on large cities such as Guangzhou, Zhejiang and Beijing. Reducing phosphorus and nitrogen in these water bodies is an urgent need, hence the proposed use of *PHOSLOCK* in such projects.

PHK has examining the most advantageous channels to market and sell *PHOSLOCK* in China. PHK and Enjoy Water will focus on inner city canals and some lake projects where they have a strong customer relationship. Enjoy Water will work with Xingyuan and PHK on larger lake projects.

A number of smaller paid trial applications in China were undertaken during the quarter. Successful trial results, which take 3-6 months to assess, should lead to significant projects.

Certification



Phoslock China has received certification by leading Chinese environmental testing agency, the Chinese Research Academy of Environmental Sciences (CRAES). Based in Beijing, it is a leading Chinese environmental testing agency. This certification adds to the North American Drinking Water NSF/ANSI Standard 60 certification achieved in 2011.

PHOSLOCK is now officially classified as **a General Environmental Substance** which is neither hazardous nor harmful to the environment. All tests were undertaken according to international test protocols. The CRAES certification is an important milestone for the development of PHK’s China business.

These official certifications from both North America and China give essential confidence to customers that *PHOSLOCK* is an environmentally friendly, non-toxic water remediation product.

South America

The application of *PHOSLOCK* to Lake Pampulha in Brazil continued during the quarter. Based on the project timetable and current orders, nearly half the project tonnage will be shipped and substantially applied before the end of the calendar year, by which time revenues are forecast to reach \$2million. The remaining \$2-2.5million in contract value is expected to be finalised over the 2017 calendar year.

Results continue to be positive and all milestones have been reached. In preparation for the rainy season, starting in October/November, a sediment curtain has been installed near the main inflow by the Pampulha consortium. This is designed to reduce inputs of particulate matter into the areas of the lake already treated.

In addition to the Pampulha project, PHK's Brazilian representative Hidroscience has placed orders for new clients valued in excess of \$200,000, to treat drinking water reservoirs in the North East of the country.



Application of sediment curtain to Pampulha Lake, Brazil to reduce sediments entering the lake

Europe

Much of the work undertaken by Phoslock Europe during the quarter was focussed on upcoming projects scheduled for winter 2016/17. These include projects in the UK, Germany, Belgium and Austria which in aggregate, are worth over \$1million.

In addition, Phoslock Europe is working towards undertaking a major project in Poland which is expected to take place during 2017, with a total value expected to be in excess of \$1.2 million.

North America

Orders valued at approximately \$160,000 were received during the quarter from PHK's US licensee, SePRO Corporation.

Preparations are underway to undertake a large application valued at more than \$550,000 to a recreation lake in Quebec during spring 2017.

PHK will participate in the Annual North American Lake Management Society Conference to be held from 1-4 November in Banff, Canada. Three Special Sessions focussing on Phoslock have been organised during the conference and a total of 12 *PHOSLOCK* related presentations will be given. Presenters include leading researchers on *PHOSLOCK*-related topics from Europe and North America, as well as consultants and PHK licensees. The NALMS conference attracts lake managers and government officials from across North America and will provide an opportunity to disseminate information about the product and recent applications.

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 we anticipate progress over the next six months.

Phoslock Production

The manufacturing facility ran the quarter on normal shifts, with all production being shipped immediately. Most shipments this quarter were to Brazil.

Phoslock Patent

As previously announced, PHK has lodged a subsequent patent application to protect the core technology which is in an advanced stage of being granted. During the September quarter extensive work was undertaken on progressing the new *PHOSLOCK* patent in various jurisdictions.

The examination and approval of the new patent in some 50 countries (all EU countries are covered by one examination) is currently in process and expected to be completed over the next 12-18 months. PHK has no control over the timing which various patent offices' take to examine, comment, and seek clarifications or amendments on the patent applications. For more information on the Patent approval process please see website – phoslock.com.au.

Financial Commentary

Cash receipts for the September quarter were \$718,000. Cash costs, excluding inventory purchases and interest and R&D, were \$669,000. Product purchases for the quarter were \$807,000. This reflects a high level of inventory purchases with the majority of receipts for this inventory due in the December quarter. Forecast cash receipts for the December quarter are expected to be in the vicinity of \$1,500,000 (based on receipts to date plus receipts anticipated for the balance of the quarter).

The PHK Group is currently undertaking a number of Research & Product Development projects. Expenditure on R&D in the September quarter was \$108,000 with similar expenditure expected in the December quarter. A significant proportion of the product development expenditure is expected to be refunded.

During the September quarter, major shareholder Link Traders Pty Ltd exercised 5 million options for a total of \$265,000.

As at 30 September, 2016 the Company had cash on hand of \$653,000. In addition, receivables amount to \$700,000 and inventories of \$800,000 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 some 50 countries, with the intention of extending the core *PHOSLOCK* technology to 2033.

PHK is headquartered in Sydney, Australia and has offices in Brisbane, Shanghai, China and Bremen, Germany covering Europe/UK and South America. PHK is represented by licensees, distributors and agents in ten other countries including Bentophos in Germany, SePRO Corporation in the United States and HidroScience in Brazil.

PHK has signed agreements in China with four environmental companies to gain access to their clients for remediation work on lake, river and canal projects. These include Hangzhou Enjoy Water Technology Co. Ltd, 29% owned by Shenzhen Stock Exchange listed Xingyuan Environmental Technology Co. Ltd (www.xingyuan.com) and Nanjing Zhongke Water Environment Co. Ltd.

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



North America



China

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

PHOSLOCK has been used on many high profile water bodies in Europe/UK, North America and Australia. To date over 250 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