

ASX Announcement

26th October 2020

September 2020 Quarterly Update

- Investigations continue into accounting issues in China
- Intermediate measures put in place to address issues and reset China business
- International business continues to develop on a positive basis

Phoslock Environmental Technologies (ASX: PET) today provides a trading update for the quarter ended 30th September 2020.

China operations

At the request of the Company, the securities of PET were suspended from quotation on 17th September, under Listing Rule 17.2. The Company subsequently announced on 21st September that an investigation was underway into apparent accounting irregularities relating to PET's China Operations. Suspected accounting irregularities were first discovered during an internal review of controls. These were subsequently brought to the attention of PET's auditor and investigated as part of the audit process for half year accounts.

On 30th September, the Company announced that the Board had accepted the immediate resignations of the Deputy Chairman, Mr Zhigang Zhang and non-executive director Mr Ningping Ma.

On 8th October, the Company announced that KPMG had reported its preliminary findings into suspected accounting irregularities relating to PET's China operations. Fraudulent activity had been identified, including false accounting and falsification of invoices and service contracts where PET or its subsidiaries are the recipient, and potential improper tax reporting and misappropriation of funds. Several China-based employees were either stood down or terminated in relation to these matters. The KPMG preliminary findings also confirmed that several previously undisclosed related party transactions had taken place. Further investigations have continued to determine the full extent of these, and possibly further, irregularities and to quantify the impact on the company's finances and accounts. ASIC has allowed the company an extension of time (31st December 2020) to lodge its audited half year accounts.

The Company has stated that it will actively investigate and consider its rights in relation to pursuing legal action against individuals and/or entities found to have been involved in any fraudulent activity and to securing the recovery of amounts associated with all irregularities.

In addition to support being provided by KPMG, PET has 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 includes, but is not limited to:

ASX Code: **PET**

Share Price: **A\$0.245**

52 Week High: **A\$1.09**
52 Week Low: **A\$0.19**

Issued Shares: **625.0m**

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

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BLOG on Water Issues:
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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.

In addition, comprehensive reviews have been initiated to strengthen PET China's financial reporting procedures, delegated authority policies and general risk management framework.

The Company confirmed in its announcement on 8th October that measures had been taken to protect the company's assets, including cash reserves, and intellectual property while the investigations continue.

All company operations and assets outside of China are unaffected by these matters, including significant cash reserves on deposit in Australia.

International operations

Successful trials have completed or continue in a number of US States, including Utah, Washington State and Michigan. Recent communications with administrators have been positive and planning is now underway to continue remediation works on a larger scale, particularly in relation to Utah Lake and Lake Hopatcong.

In South America, treatments are proceeding as planned in Pampulha (Belo Horizonte), Rio de Janeiro , North Eastern (Bahia state), and Southern Brazil (Rio Grande do Sul). This work will continue through the balance of this financial year and into calendar year 2021.

Several projects are proceeding in Europe, including in Netherlands, Germany, and Belgium. While these projects are relatively small, they are important demonstrations of the efficacy of Phoslock treatment and will assist in future business expansion in those markets. A larger project in Netherlands has been delayed while the local government authority concerned continues a stakeholder engagement program. Early work on potential projects in the Nordic region is also progressing.

PET has signed an MOU with a Thai distribution company for development work in Thailand.

The Company maintains a strong cash position and remains focused on completing the investigations and remedial measures in China and continuing to develop its opportunities in other parts of the world.

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 HydroScience 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