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Phoslock Environmental Technologies

ASX ANNOUNCEMENT

Friday 31st January, 2020

Business Update

Key Points:

- Revenue FY2019: $25.1m (up 53% on FY2018)
- Some applications carried forward to 2020
- New large factory premises secured
- Debt free, $32m cash & receivables
- 2020 Revenue forecast: $50-70m; (up 100% on FY2019)
- Global project pipeline now $380m (up $50m)

FY2019 Business Summary

In Q4 2019 PET shipped over 4,000 tonnes of Phoslock® to five project areas: Xingyun Lake in southern China, Wuhan lakes in central China, Beijing Canals, Beijing Wetlands and Florida Wetlands, US. All five are multiyear projects where PET is providing Phoslock® and in some instances engineering services.

ASX Code:	**PET**
Share Price:	**A$0.74**
52 Week High:	**A$1.60**
52 Week Low:	**A$0.36**
Issued Shares:	**565.0m**
Market Cap:	**A$418m**

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PHK BLOG on Water Issues:
www.phoslock.com.au

Revenue was $25.1m, up 53% on FY2018. Gross Profit Margin on Sales was 51.3%. (50.1%; FY2018) The revenue split was 85% China,15% International.

At Xingyun Lake, authorities have temporarily suspended treatment during the holiday season to allow fishing (not coronavirus related). Hence, some $1.5M expected revenue from this project will be received in Q1 2020. Estimated operations at Xingyun for FY2020 are similar to FY2019 comprising 3500 tonnes/ $11m revenue.

In Wuhan, all applications and engineering work for the initial contract were completed in October 2019. There are presently no PET personnel in Wuhan. Work on the next stage is not due to commence until April-May 2020.

Four International projects totalling $3.5m have been moved to FY2020. Three of the projects were in Europe where pre-work, including dredging, was not completed by year end. One North American project required approvals which have not yet been received.

The consequence of the above project delays will reduce Gross Profit by some $2.5m for FY2019. The final accounts are being finalised and subject to audit by KPMG. Net Profit before Tax and non-cash items (Option expense and Depreciation) is forecast in the range of $2-3m.

Net Cash from Operations for FY2019 was $7.6 million. This included customer receipts of $28.1 million.

As at 31 December 2019 PET is debt free with cash of $15m and Debtors of $17m.

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Three application boats on Xingyun Lake – nearly 3,000 tonnes applied in FY2019. Video of Xingyun Lake application taken by drone can be seen on the home page of www.phoslock.com.au

FY2020 Business Outlook

On 3 December 2019 PET advised shareholders that the sales forecast for FY2020 was in the range of $50-70m, a 100% increase on FY2019. This included five current multi –year projects in China; Xingyun Lake in southern China, Wuhan lakes in central China, Beijing Canals, Beijing Wetlands and Florida Wetlands, US.

A new project area, Lake Dianchi & Catchment was announced on 11 December 2019. Work will commence in Q1 2020. The Shilongba Reservoir (120 hectares) where work is to begin is located very close to Lake Dianchi, China's ninth largest freshwater lake, 330 km^2, six times larger than Sydney Harbour.

The Shilongba restoration contract value is $15-20m, including significant quantities of Phoslock®, installation of a water treatment facility, wetlands and engineering. This project is expected to be completed in FY2020. A maintenance contract for this precinct has an initial period of five years with a value of some $5m pa, commencing in FY2021.

FY2019 International sales were significantly affected by delays to four projects, which are expected to be undertaken in FY2020. Sales forecast for FY2020 for International is in the range of $10-15 million, comprising some 20 projects in 12 countries.

400 tonnes of Phoslock® were ordered in Q4 2019 for use in the Florida wetlands. The largest of these projects will commence in February 2020. Positive results are expected to lead to significantly larger projects in both Florida and other regions of the U.S. In addition to Florida,

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we are working with our licensee on projects in other key regions of the U.S., including Utah, the Great Lakes Region and the North East.

Our Brazilian licensee Hidroscience accounted for over one third of International Sales. With four multi-year projects in progress in 2019 we anticipate increasing to eight projects in 2020. Lake Pampulha in the State of Minas Gerais has moved to an annual maintenance contract in the vicinity of $2m pa.

Europe/UK has 12 projects in six countries scheduled for this year. Three of these projects have been deferred from 2019.

In addition, the Company continues with advanced negotiations on several Very Large applications each requiring 5,000 tonnes or more.

Changxing Factory

Modifications to the current Changxing Factory were successfully completed on time and within budget. This production line has annual production capacity of 20,000 tonnes.

With demand for Phoslock® increasing significantly, the Company has been examining the most effective path to increase production and storage, for both raw materials and finished product

In December 2019, PET China signed a long-term lease on a 12,000 square metre, factory/warehouse facility, three times the size of the present facility and close to the existing factory. Local government has provided substantial incentives to remain in Changxing.

This facility is able to house up to four 20,000 tpa production lines, along with significant storage. The first line is scheduled to take six months to get into production, with work commencing after Chinese New Year.

New Factory in Changxing

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Project Pipeline

The current project pipeline now totals some $380m, comprising $250m in China and the previously announced increased total of $130m of new International projects over the past 12 months. This covers the period to end 2023 and includes over 40 International projects and six Chinese projects.

The criteria for inclusion in the pipeline are for projects at an advanced stage, dependent on final customer approval and/or financing. For multi-year projects, PET has used its best estimate of sales over the forecast period.

Financial Commentary

Receipts from customers were $4.8m for the December quarter, making a total of $28.1m for the FY2019 (FY2018; $9.7m). Operating costs (excluding raw material purchases and taxes) were $2.3m for the quarter ($2.3m for the September quarter).

Manufacturing costs, including raw material procurement, were $2.1m for the December quarter (FY2019 $10.4m), reflecting a major increase in business activity. As at 31 December 2019, PET held some 1,250 tonnes of finished Phoslock® at various storage locations (sales value $4m), plus raw materials to manufacture another 4,000 tonnes.

Net Cash Flow from Operations (NCFO) for the quarter was a $0.3 million inflow. NCFO for FY2019 was a record $7.6 million inflow.

Group Profit Margins for FY2019 were 51.3% (FY2018; 50.1%)

Capital Expenditure for the quarter was $0.2 million, predominantly for expansion works at the Changxing factory.

Ten million $1.35 short term performance options issued in September 2019 have been cancelled as sales did not meet the vesting target.

FY2019 Audited Financial Accounts are schedule for release on or before Friday 28 February 2020.

Chairman Laurance Freedman AM stated:

"Although we have experienced some delays in the last quarter due to slower than anticipated government action on some projects, all are continuing and will commence or be completed in the current financial year. Overall, therefore, we expect to see no change in the total volume of business.

"The Company and its personnel are unaffected by the coronavirus outbreak and at this stage we expect to see no change in the overall contract position."

Mr Laurence Freedman AM
Chairman

Mr Robert Schuitema
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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 a number of 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