

Company announcement

Release date 31 August 2022

PET reports audited first half 2022 results

Phoslock Environmental Technologies (ASX: PET) today reported audited financial results for the half year ended 30 June 2022. The key financial metrics are summarised below.

Key financial results	6 months to 30 June 2022	6 months to 30 June 2021
Revenues	\$1.3 million	\$1.3 million
Gross Profit	\$0.72 million	\$0.68 million
Underlying EBIT ¹	(\$5.3 million)	(\$4.2 million)
NPAT ²	(\$6.5 million)	(\$1.2million)
Net Operating Cash Flow	(\$4.5 million)	(\$3.8 million)

Key balance sheet metrics

Cash at bank	\$17.5 million	\$30.0 million
Receivables	\$0.65 million	\$2.8 million
Inventory	\$3.0 million	\$3.3 million

1. Underlying EBIT (Earnings before interest and tax) is a financial measure which is not prescribed by Australian Accounting Standards ('AAS') and represents the profit or loss under AAS adjusted for the add back of income tax, finance costs and certain non-cash income and expense items that are deemed to not have an ongoing affect to the underlying performance of the business. The Company believes that presenting Underlying EBIT provides a better understanding of its financial performance by facilitating a more representative comparison of financial performance between financial periods.
2. Net Profit/(Loss) after Tax

During the first half of 2022, PET continued to restructure and reset operations in most key geographies. These changes are being made to support the Company's strategic growth plans and ensure appropriate levels of risk management and governance going forward.

Sales in the half were relatively small but generally in line with expectations as the company rebuilds the sales pipeline following COVID pandemic related impacts. Revenue for the period was \$1.3m which was down 5% on the \$1.3m in the prior corresponding period. Consistent with previous commentary in PET's quarterly updates, project delays and port disruptions during the first half of 2022 resulted in lower sales in the period.



Gross profit was slightly over \$700,000 for the period at a margin of 57%, up from the prior period's 52%. The improved margin resulted from higher margin sales to our South American distributor.

Underlying EBIT for the period was a loss of \$5.3m compared to loss of \$4.2m this time last year.

NPAT for the first half of 2022 amounted to a loss of \$6.5m. This compared to a net loss of \$1.2m in the prior corresponding period. Lower sales than anticipated and higher operating expenses in the period all contributed to the loss. Higher operating expenses were primarily as a result of restructuring costs in China, expenses incurred in manufacturing operations for current and proposed plant expansion endeavours, and ongoing legal and consulting expenses relating to R&D activities.

Post half year end, on 7 July 2022, we announced that a court in China had ordered the payment of the outstanding receivable from YuXi City Ecosystem Department ('YuXi') in relation to XingYung Lake Project of \$6.9m and interest of \$260,000 by 18 October 2022. Notwithstanding the court decision, there remains some uncertainty in relation to the recoverability of this outstanding amount and the impairment provision remains in the accounts at this time.

PET is in regular contact with Xingyun Lake officials to secure payment. Should a payment plan be agreed and implemented, management will re-assess its judgement on the probability of recovery.

Operating Cash Flow for the six months period was a cash outflow of just over \$4.5m representing \$659,000 additional cash outflow from the previous period. The increase in cash outflow relates primarily to higher employee payments and manufacturing related activity, combined with ongoing legal and consulting expenses as a result of investigation activities in China.

In April, the Board approved an investment of approximately \$1 million in our China manufacturing facility which will allow us to reach a capacity of 6,000 tonnes per annum. This capacity equates to a level of sales required for the business to break even at current cost levels. This capacity increase will be critical in the short term as we build the sales pipeline and continue to evaluate the proposed new manufacturing facility in the United States.

PET remains well funded with cash and cash equivalents of approximately \$17.5 million at end of the half year.

The company's profile in Europe continues to build following the successful completion of the major Kralingse Plas Project in The Netherlands. Several smaller projects have been secured for applications in the Netherlands in the second half of this year and other promising leads are being pursued. New distributors have been appointed in Germany, Spain and the UK, with a UK strategic partnership also secured with SSI Services, part of the South Staffs Water organisation.

On the R&D front, PET continued to make good progress in developing and testing a number of complementary products. There is a particular focus on developing products that enable phosphorous and other nutrients to be removed from flowing water.

On 5 August PET announced it had entered into an agreement with US based Water Warriors Inc. for global distribution rights over their patented product that has been proven to be effective in the removal of phosphorus from freshwater sources including stormwater, agricultural runoff and municipal wastewater. As a solution to addressing flowable water remediation issues, the addition of the new product – which will be marketed as 'Phosflow' - is highly complementary to PET's own patented technology and addresses one of the Company's key strategic objectives of broadening its service offerings into additional market segments

Turning to the outlook, in the short-term the outlook remains challenging for PET as we look to rebuild the sales pipeline and execute on the growth strategy, while incurring some ongoing costs associated with legacy issues. Over the remainder of this year, positive opportunities exist in a number of markets, especially the USA, Europe and ANZ, where new opportunities are being developed in Australia in sectors such as mining and alongside other water remediation techniques.



Longer term, the market for PET's products and services continues to grow, with water quality issues likely to be prioritised as COVID impacts begin to recede. Phoslock maintains an important competitive advantage in the markets in which it operates and is looking to leverage that advantage to deliver sustainable and profitable growth in the years ahead.

Subsequent to the end of the half year, as announced on 11 July, PET received correspondence from the ASX stating that the Company's securities will be reinstated for quotation on the ASX subject to a number of conditions being met. PET believes it is in a position to meet all of these conditions now that the company has released fully audited and unqualified accounts for the first half of 2022.

This announcement has been approved by the Chairman and Managing Director

David Krasnostein AM
Chairman

Mr Lachlan McKinnon
Managing Director and CEO

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About 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, Bremen (Europe) and Manchester (UK). PET also has registered entities in Canada, USA and Belgium, and manufacturing operations based in Changxing, China. PET is represented by licensees, distributors and agents in numerous other countries including HydroScience in Brazil.

Phoslock® is a proprietary and unique water treatment product that permanently binds excess phosphorus in the water column and sediments.

Phoslock is certified for use in drinking water in North America, Europe, Brazil, Australia, and China. Along with Phoslock, PET also supplies zeolites and specialised solutions that address water pollution issues.

www.phoslock.com.au