

DECEMBER 2022 QUARTERLY ACTIVITIES REPORT: RECORD CASH RECEIPTS, POSITIVE OPERATING CASH FLOW, KEY MILESTONES FOR CY 2022 ACHIEVED

Key Highlights

- **Highest quarterly cash receipts** (approx. \$6.7m) and **annual cash receipts** in the Company's history (approx. \$22.9m)
- **Positive quarterly operating cash flow recorded** (approx. +\$200,000)
- **Growth momentum continues** with 15 successive quarters of cash receipts growth vs prior corresponding period
- **Key milestone achieved in CY 2022 with continued recurring revenue transition**
 - Delivered on expectations with recurring cash receipts of \$19.5m in CY 2022 (+41% vs CY 2021)
 - >85% of cash receipts in CY 2022 recurring, up from 70% in CY 2021 (38% in CY2018)
 - 34% gross margin (HY 2022), up from 19% in CY 2017
- **Strong progress continues operationally:**
 - \$1.4 million contract award for the supply of a water treatment plant to South 32
 - On track to deliver on \$2.1 million Build, Own, Operate plant to Givaudan by Q2 2023
 - Progressing with NSF product certification of new Graphene-Oxide membrane filter technology
 - Integration of remaining 25% of German De.mem-Geutec subsidiary completed
- **Company well-funded with cash plus term deposits of approx. \$5.2 million** as of 31 December 2022
- **Strong outlook for 2023** – Expect to maintain strong top revenue line growth with continued focus on profitability

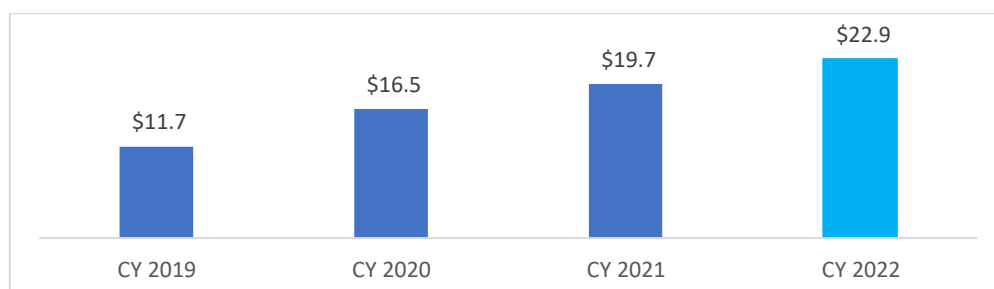
23 January 2023: Industrial water and wastewater treatment company De.mem Limited (ASX: DEM) ("De.mem" or "the Company") is pleased to report strong December Quarter 2022 results.

Record Cash Receipts in the December Quarter 2022

De.mem is delighted to report cash receipts of \$6.7m in the December Quarter 2022, the Company's highest ever quarterly cash receipts since inception. Cash Receipts are up by approx. 14% vs. \$5.9m in the December Quarter 2021 (prior corresponding period or pcp). De.mem has now recorded 15 consecutive quarters of cash receipts growth vs. pcp – despite the extremely challenging situation due to the Covid-19 pandemic in CY 2020 and 2021, and the global macroeconomic challenges in CY 2022.

Total cash receipts during Calendar Year ("CY") 2022 are approx. \$22.9m, up by approx. 16% from \$19.8m in CY 2021. Importantly the mix of the underlying revenue has been significantly enhanced with a growing portion of recurring revenue.

CHART 1: CASH RECEIPTS GROWTH SINCE CY 2019 (IN A\$ MILLION)

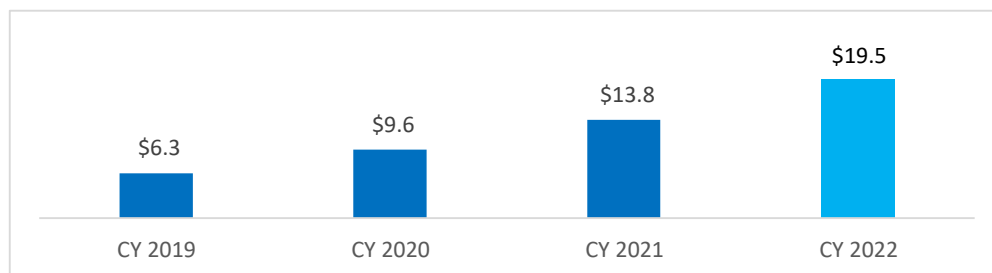


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Successful Transition to a Stable, High-Margin Recurring Revenue Model

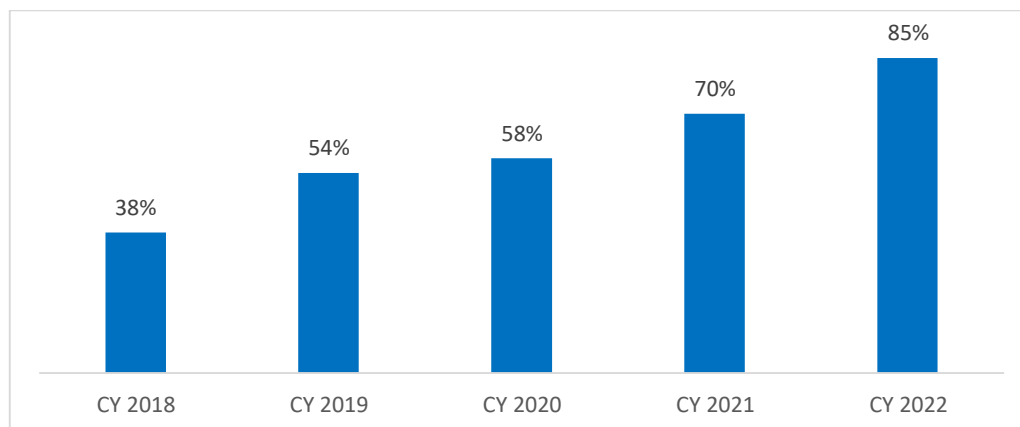
In absolute numbers, De.mem has generated approx. \$19.5m in recurring cash receipts in CY 2022, reflecting of 41% vs the pcp in CY 2021 (\$13.8m in recurring cash receipts recorded in CY 2021). With this the Company managed to deliver the upper range of the recurring revenue expectations provided to shareholders in April and July 2022. Management provided expectations of \$16.5m - \$19m to shareholders in April 2022 (see the ASX announcement "Quarterly Activities Report & Appendix 4C" dated 28 April 2022) and then subsequently upgraded this to \$17.5m - \$20m in July (announcement "Quarterly Activities Report & Appendix 4C" dated 26 July 2022"). The ability to forecast the recurring revenue base speaks to the quality and predictability of the Company's recurring revenue base.

CHART 2: RECURRING CASH RECEIPTS GROWTH SINCE CY 2019 (IN A\$ MILLION)



The recurring cash receipts growth is driven by the Company's ability to cross-sell, i.e. offer a wider range of products and services to its key industrial accounts. De.mem has successfully evolved its business model over the past years, from a largely projects driven business to a stable, high margin recurring revenue model. The share of cash receipts from recurring revenue segments vs. total cash receipts increased from 38% in CY 2018 to more than 85% in CY 2022.

CHART 3: RECURRING CASH RECEIPTS VS. TOTAL CASH RECEIPTS



De.mem's recurring revenue segments are very predictable and generate above industry average gross margins. The recurring revenue growth continues to enhance the margin profile across the combined business (gross margin up from 18.3% in CY 2017 to 34.1% in H1 CY 2022).

De.mem advises that while the Company's recurring revenue segments generate repeat orders, some minor seasonality may apply between quarters subject to, for example, the timing/receipt of single payments, payment terms with individual customers and/or holiday periods.

Positive Net Operating Cash Flows in the December Quarter 2022

The Company is pleased to report positive net operating cash flows for the quarter, with approx. \$200,000 in cash generated from operations. This result demonstrates De.mem's continued execution of the strategy to pursue high margin recurring revenue growth whilst maintaining a disciplined cost approach.

With the above, De.mem delivers early against its key milestone of achieving positive net operating cash flows on a quarterly basis by mid-2023.

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The positive operating cash flows (~\$200,000) during the December Quarter 2022 split up as follows:

- Cash inflows generated by the Australian and German operations: Approx. \$690,000;
- Cash outflows to support the operations of the Singapore subsidiary, which is predominantly in membrane R&D: Approx. \$-260,000; and
- Cash outflows to fund expenses related to the holding company, including cost related to listing, corporate administration and overhead: Approx. \$-230,000.

Payments to acquire businesses (line 2.1b in Appendix 4C) relate to the acquisition of the remaining 25% in De.mem-Geutec GmbH, Germany (see ASX announcement “De.mem acquires 25% stake in Geutec to increase holdings to 100%” and section below). Payments for investments in Property, Plant and Equipment (line 2.1c in Appendix 4C) mostly relate to investments in the Build, Own, Operate water treatment plant to be deployed under the contract signed with Givaudan in Singapore (see the ASX announcement “De.mem signs \$2.1m BOO contract” dated 29 August 2022). The two latter payments are by nature one-off.

Please see the Appendix 4C attached to this release for further details regarding the breakdown of incoming and outgoing payments.

De.mem Group Business Segments – Focus on Growing Recurring Revenues Achieved in CY 2022

The core of De.mem’s strategy is to provide a comprehensive “one stop shop” offering to its extensive industrial customer base and in particular, the Company’s industrial key accounts, around a range of products and services required for potable and industrial water supply, the supply of industrial process water, the treatment of industrial wastewater and the recycling/re-use of water that has previously been used in industrial processes.

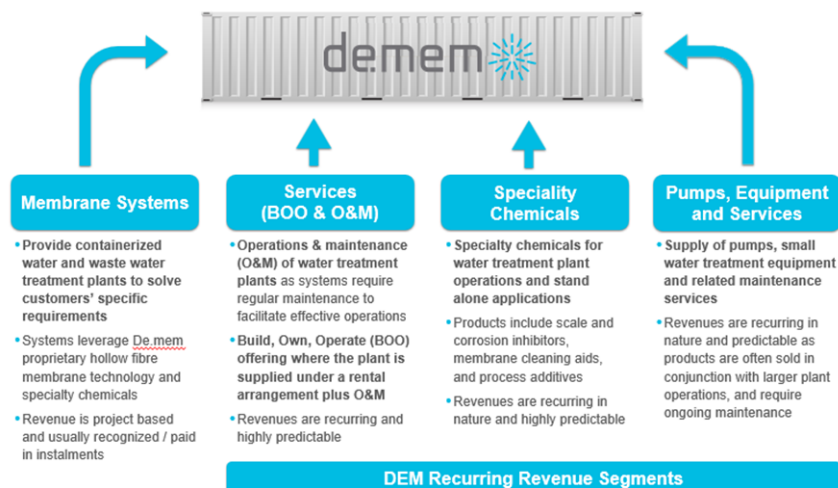
As communicated to the ASX, during CY 2022 the Company’s focus has been on growing its “recurring revenue segments”. These segments are all required for the successful operation of a wastewater plant and are hence recurring in nature:

- Build, Own, Operate (“BOO”) and Operations & Maintenance (“O&M”) contracts.
- Regular maintenance work on water treatment equipment.
- Specialty chemicals sales.
- Sales and maintenance services of pumps.
- Sales of small equipment and consumables.
- Membrane replacement sales into existing facilities.

The Company’s wide product portfolio brings extensive cross-selling opportunities, as most industrial customers require several or all of the above products and service lines – from the supply of water treatment plants and systems to O&M services as well as chemicals and consumables for the ongoing operations.

The strategy results in a high-quality revenue/business model and a comprehensive offering of products & services which is unique within the water treatment industry. It brings long-term, stable customer relationships and key accounts to De.mem, which provide a strong opportunity for the cross-selling of other De.mem products and services. This establishes the basis for the continued growth of the business in the future.

As of January 2023, De.mem’s group structure is as follows:



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New \$1.4m Project Award Received for Supply of a Water Treatment Plant to South 32

On 17 October 2022, De.mem received a new contract award for the supply of a membrane-based water treatment plant to a mining site. The project is worth approx. \$1.4m in revenue, the vast majority of which is expected to be recorded in CY 2023. The customer is a subsidiary of South 32.

While the contract is a project and effectively one-off in a nature, it provides the Company with the opportunity to sell chemicals, consumables and other water treatment products to the same client, thus opening up a potentially larger opportunity over the longer term.

For further details please refer to the ASX announcement dated 17 October 2022 “De.mem signs \$1.4m contract for water treatment plant supply”.

Acquisition of Remaining 25% Stake in Highly Profitable German Geutec Subsidiary

On 3 October 2022, De.mem announced the acquisition of the remaining 25% stake in its German subsidiary De.mem-Geutec GmbH, Velbert, Germany. As a result, De.mem now owns 100% in the subsidiary. The purchase price paid for the 25% stake was approx. A\$ 350,000.

De.mem acquired the initial 75% in De.mem-Geutec on 17 October 2019 (see the ASX release dated 17 October 2019, “De.mem acquires German industrial waste water treatment company”, for further details). De.mem-Geutec supplies waste water treatment products and solutions to industrial customers from the heavy industrial, plating/galvanizing and metals processing industries. It has a strong customer base in Germany and Europe, with more than 100 Small-and-Medium Enterprises (SMEs) and a number of larger corporations as repeat customers. It is led by local Managing Director Mr. Uwe Graessel, who is committed to staying with the company, ensuring stability and strong local leadership for the ongoing expansion.

World Leading Membrane Technology Provides Strong Competitive Advantage; Progressing with NSF Certification for New Graphene Oxide Membrane

De.mem has a strong competitive advantage of proprietary and/or patented technologies, underpinning the Company’s unique portfolio of hollow fibre Microfiltration, Ultrafiltration and Nanofiltration membranes. The Company commercializes its membranes as the key component of its integrated water and wastewater treatment systems or its Build, Own, Operate and service contracts, and in combination with the Company’s wide range of specialty chemicals, pumps and consumables that are typically required by clients during operations of membrane based water treatment plants.

On 7 September 2021, De.mem presented its “next-gen” membrane technology, based on Graphene Oxide (“GO”) enhanced polymer membranes, with substantially improved membrane characteristics such as 20-40% higher water flux (throughput), leading to significantly reduced operating cost for the water treatment process.

During H1 2022, De.mem initiated a process to obtain approval for use of the new GO membrane technology for potable water treatment applications by the NSF (National Sanitation Foundation, the American regulator for drinking water related products). De.mem has been liaising with the NSF since then, including a meeting with NSF representatives in the USA during the December Quarter 2022. The conclusion of the process is expected for the first half of CY 2023.

On 19 July 2022, De.mem announced a new partnership with Purafy, Canada, related to the commercialization of the GO membrane technology (see the ASX release dated 19 July 2022, “De.mem Signs Technology Commercialization Partnership Agreement” for further details). Purafy is part of Grafoid Inc., Canada, a graphene research, development and investment company, and promotes a range of products for domestic water treatment filtration as well as portable water treatment systems. Through the partnership, De.mem intends to launch the GO membrane technology initially into domestic point-of-use and point-of-entry water purification applications, which is estimated to be a US\$82.6bn global market by 2027 (source: *Market Research Future, study on the Water Purifier Market, May 2021*). The commercial launch will kick off as soon as the innovative technology has achieved NSF certification.

ESG Impact

With its core business model focusing on the treatment, re-use and recycling of industrial wastewater, De.mem is fulfilling an important environmental and social mission.

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During the December 2022 quarter, De.mem treated a total of approx. 565 million liters of water under industrial BOO and O&M contracts, across 17 sites in Australia and Singapore (roughly equivalent to the amount of water contained in ~230 Olympic sized swimming pools). The large majority of De.mem's contracts relate to the treatment of wastewater to a sufficient quality which exceeds regulatory discharge standards, whereby it is deemed sufficiently safe to release the treated water into the environment.

The new Build, Own, Operate project in Singapore (see section above) will add another approx. 7 million liters of high-quality treated water per quarter to the above.

De.mem's treatment systems often facilitate the deployment of a membrane-based separation process. This process not only relies on lower power consumption, but also meaningfully reduces usage of bulk and other harmful chemicals (only small amounts of high value specialty chemicals are required).

There were no breaches of any environmental (EPA, Environmental Protection Agency) standards or regulations reported during the quarter.

Outlook for CY 2023

De.mem's core focus for CY 2023 will be the continued growth of the Company's recurring revenue segments whilst maintaining a focus on profitability and operating cashflow. As reported above, this continues the Company's successful strategy over the past years. The Company will provide further updates to the operational objectives and associated financial outcomes for CY 2023 with the presentation of the Annual Report for CY 2022 by the end of February 2023.

The key growth initiatives for CY 2023 include the following:

- **Specialty chemicals:** De.mem offers a range of specialty chemicals formulations, which are manufactured by the Company's subsidiaries in Perth (De.mem-Capic Pty Ltd) and Germany (De.mem-Geutec GmbH). The product offering includes: Antiscalants for water treatment, mining and industrial applications, corrosion inhibitors, de- and antifoamers, biocides, and other specialty formulations. These products deliver the highest gross margins within the De.mem business and are also less capital intensive in relative terms to BOO and one off system sales.

The expected growth is based on substantial cross-selling opportunities to existing water treatment customers in other group locations, in particular on the Australian East Coast. De.mem's key objectives for CY 2023 are to further expand its specialty chemicals sales to Australian East Coast customers, and to expand its support capabilities for the chemicals business in these locations.

- **Proprietary membrane sales and sales of small membrane based water treatment equipment:** De.mem's hollow fibre membrane products have been developed and are manufactured at the Company's Singapore facility. Membrane systems and equipment sold typically deliver ongoing recurring revenue streams for the replacement of the membrane filters, as well as for the supply of specialty chemicals such as antiscalants and membrane cleaners.

The key milestone for De.mem in this segment is to achieve NSF certification (see section above) for the Company's new Graphene Oxide membrane technology, which will be the basis for a wider launch of this unique membrane technology into the North American and other international markets.

- **Services (Operations & Maintenance and Build, Own, Operate):** As described above, service contracts usually provide for an extremely stable and long term business relationship to industrial customers, with the strong opportunity to cross-sell other products i.e. specialty chemicals, and to expand the business into other sites of the respective client.

For this reason, signing new service contracts as well as maintaining the existing ones remains a key milestone for the Company for CY 2023. While the signing of new BOO contracts is subject to the availability of capital, De.mem will consider loan financing as an option to pursue this offering.

- **Pumps and related maintenance services:** De.mem's pump and services segment (through the De.mem-Stevco Pty Ltd and De.mem-Pumpstech Pty Ltd subsidiaries in Melbourne and Launceston, TAS, respectively) provides for a stable business segment with a strong, high-margin portion of maintenance revenues. It has opened doors for cross-selling opportunities during the past CY 2022, including the supply of a \$280,000 water treatment system to an industrial customer from the food & beverage industry in Tasmania.

De.mem's objectives are to expand this business segment organically throughout CY 2023 and to cross-sell further water treatment and specialty chemicals products into the existing customer base in these locations.

CEO Commentary

De.mem Chief Executive Officer Andreas Kroell said:

"We are proud to conclude CY 2022 with record results - the highest ever quarterly cash receipts reported by our Company, as well as positive net operating cash flows.

This financial result strongly validates our strategy to build a stable recurring revenue model around our innovative and high margin membrane and specialty chemicals product lines.

Furthermore, we saw strong operational progress during the December quarter, with important contract awards such as the \$1.4m order to supply a water treatment plant to South 32.

We are excited to carry this strong growth momentum over into CY 2023."

Payments to related parties included in Appendix 4C

The payments to related parties of De.mem disclosed in item 6.1 of the Appendix 4C for the quarter, accompanying this quarterly activities report, were payments of directors' fees and salaries.

This release was authorized by the Company's CEO, Andreas Kroell, on behalf of the Board.

-ENDS-

For further information, please contact:

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De.mem Limited (ASX:DEM) is an Australian headquartered, international decentralized water and wastewater treatment business that designs, builds, owns and operates turnkey water and wastewater treatment systems for some of the world's largest companies in the mining, electronics, chemical, oil & gas, and food & beverage industries. Its systems also provide municipalities, residential developments and hotels/resorts across the Asia Pacific with a reliable supply of clean drinking water. De.mem offers a "one-stop-shop" of services, chemicals and consumables to its clients, for the ongoing operations of their water and wastewater treatment plants.

De.mem's technology to treat water and wastewater is among the most advanced globally. The Company commercialises an array of innovative proprietary hollow-fibre membrane technologies. De.mem has been partnering with Nanyang Technological University (NTU) in Singapore, a world leader in membrane and water research.

To learn more, please visit: www.demembranes.com

Forward Looking Statements

Statements contained in this release, particularly those regarding possible or assumed future performance, revenue, costs, dividends, production levels or rates, prices or potential growth of De.mem Limited, are, or may be, forward looking statements. Such statements relate to future events and expectations and, as such, involve known and unknown risks and uncertainties. Actual results and developments may differ materially from those expressed or implied by these forward-looking statements depending on a variety of factors.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity		
De.mem Limited		
ABN	Quarter ended ("current quarter")	
12 614 756 642	31 December 2022	
Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	6,729	22,913
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(4,391)	(15,229)
(c) advertising and marketing	(1)	(14)
(d) leased assets	-	-
(e) staff costs	(1,962)	(7,566)
(f) administration and corporate costs	(136)	(1,933)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	18	25
1.5 Interest and other costs of finance paid	(22)	(86)
1.6 Income taxes paid	(34)	(42)
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	2	80
1.9 Net cash from / (used in) operating activities	203	(1,852)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(g) businesses	(361)	(2,200)
(h) property, plant and equipment	(84)	(1,576)
(i) investments	-	-
(j) intellectual property	(37)	(204)
(k) other non-current assets	-	(4)

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Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	33
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	(9)
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(482)	(3,960)
3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	2,998
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(255)
3.5	Proceeds from borrowings	(6)	(6)
3.6	Repayment of borrowings	-	(9)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (lease liabilities)	(99)	(401)
3.10	Net cash from / (used in) financing activities	(105)	2,327
4.	Net increase / (decrease) in cash and cash equivalents for the period		
	Net Cash and equivalents at beginning of quarter/year to date.	5,488	8,600
4.2	Net cash from / (used in) operating activities (item 1.9 above)	201	(1,854)

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(482)	(3,960)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(105)	2,327
4.5	Effect of movement in exchange rates on cash held	2	(9)
4.6	Cash and cash equivalents at end of period	5,104	5,104

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	3,558	4,101
5.2	Call deposits	1,546	1,536
5.3	Bank overdrafts	-	(149)
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	5,104	5,488

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	147
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

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7.	Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
	<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)		
	Bank overdraft	200	-
7.4	Total financing facilities	200	
7.5	Unused financing facilities available at quarter end		200
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		
	Standard bank overdraft account held with ANZ Bank		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	203
8.2	Cash and cash equivalents at quarter end (item 4.6)	5,104
8.3	Unused finance facilities available at quarter end (item 7.5)	200
8.4	Total available funding (item 8.2 + item 8.3)	5,304
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	N/A
	<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1	Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
	N/A	
8.6.2	Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
	N/A	
8.6.3	Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
	N/A	
	<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>	

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 23 January 2023

Authorised by: Andreas Kroell
Chief Executive Officer

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.