

Company announcement

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Annual General Meeting 2022 Chairman's Address

Much has happened since we last came together at our last AGM in May 2021. I don't plan to repeat in any detail the restructuring and remedial work we undertook this past year as we have already covered that in detail in our two Webinars in March and last November. I also addressed that work in my message to shareholders that accompanied our 2021 Annual Report.

Today, I would like to provide you with an overview of where we are as a Company, and where we are going.

Our goal is to relist and to secure sustainable and profitable growth for Phoslock, resulting in value for our shareholders. We see this happening in 3 Phases of recovery and growth:

Phase 1 is drawing to a close. It involved reconstituting our financial statements, that were severely impacted by fraud and mismanagement, and restoring their integrity such that (a) our new Auditors could give us unqualified assurance going forward, and (b) we could assure the ASX we were solvent and viable. At the issuance of the next half year accounts, I believe this work will be done. Thank you again to our CFO Matt Parker for his exemplary efforts in this critical area.

Phase 1 also involved meeting our legal obligations by reporting past incidents of mismanagement and fraud to ASIC, ASX and The Australian Federal Police. The work on this is also largely complete. We now await any further queries that may arise.

In Phase 1 we investigated potential legal claims against wrongdoers. This work is also well progressed. Our intention is to imminently file a legal claim seeking damages from former director Zhigang Zhang. In addition, we have served a letter of demand on our former CEO and Managing Director Rob Schuitema. Legal claims were also filed in China against YuXi City to recover an AUD \$7.8 million receivable for work on the XingYun Lake project. A mediation session was held just last week. The defendant Yuxi city acknowledged and did not dispute any of the contractual details. Notably Yuxi City did not dispute the basis of our claim. The judge encouraged all parties to settle the matter with reconciliation, however Yuxi City acknowledged that non-payment was due to budgetary constraints. Discussions are ongoing with the city and other government parties. Other potential claims are being considered and shareholders will be kept up to date as those matters progress.

Phase 1 also involved rebuilding our international sales and management team; bolstering our corporate governance with new company policies, financial controls, and transparent and timely reporting; rethinking our global sales strategy; revitalising our R&D program.

Progress reports on all that work was the subject of our two Webinars and has been detailed in our Annual Report. Lachie will also touch on developments relating to our commercial structure and R&D programs when he addresses you shortly.

One key piece of unfinished business from Phase 1 remains relisting on the ASX. This has been a priority for the Board and management. We are in correspondence with the ASX and discussions are ongoing to try and satisfy ASX queries.



As announced last week, we have recently provided a supplementary letter to the ASX in response to questions raised following the Company's submission to the ASX earlier this year. In this latest correspondence with the ASX, we have reiterated the Company's growth strategy and plans to return to profitability; provided near term cash flow projections; and have clarified the justification for provisions and asset write downs taken in the most recent financial periods.

We remain committed to keeping shareholders updated in respect of our efforts to have PET shares reinstated on the ASX

Phase 2 in our recovery and path to profitability is now well underway. This targets three main goals: Sales; Production; and R&D.

Our sales strategy has been extensively revised under Lachie's leadership. China remains an important market for us as the country has thousands of eutrophic polluted lakes and catchment areas all ideal for remediation with our Phoslock technology. However, China is a challenge for us. The Company has been chasing business there for many years and has secured various contracts with the largest of those now the subject of a court action where we are trying to get paid.

With our strict Code of Conduct for doing business overseas we accept that securing new business on acceptable terms and with appropriate levels of transparency and governance will be harder, not easier. China is facing its own challenges trying to achieve zero Covid cases and has imposed lockdowns and domestic and international travel restrictions. All these factors combined have meant we need to accept that, realistically, it will be some time before we can build a stable and profitable business in China.

Our growth strategy is centred on diversification – both geographically and in terms of the market segments we are able to address. To support that strategy, we have undertaken an analysis of sales opportunities in regions around the world.

One very encouraging outcome of our sales analysis is the hiring of Damian Whelan to head up our commercial operations in Europe. We have recognised that Europe presents a more encouraging market for us in the short to medium term. Damian has recorded a brief presentation to shareholders that we will show you shortly so you can hear from him directly.

Our recent success in Rotterdam has significantly lifted our profile in Europe and we are greatly encouraged by the potential in The Netherlands, the UK, Finland, Ireland, Sweden, Germany and elsewhere.

In the US, we are seeing more potential now that we have restructured our commercial offer and go to market strategy and exited our exclusive distribution agreement with Sepro. Harry Knight, our US manager, is doing an excellent job raising awareness and orders for Phoslock and securing new leads that will hopefully convert to contracted sales as we move forward.

Canada is seen as a significant potential sales market once we overcome the licensing classification issue with the Canadian Government.

And South America remains an important contributor with consistent sales in Brazil and new opportunities emerging.

A number of production-related issues also need to be addressed in Phase 2 of our recovery and growth. With our targeted/current cost structure, we need to make and sell more than 6,000 tonnes of Phoslock per year to be profitable. The Board has this month authorized expenditure of \$1million to increase capacity in our China manufacturing plant to 6,000 tonnes per annum with this upgrade to commence immediately and be completed within Q4 of this calendar year. With our current inventory levels, we are satisfied this will give us the adequate productive capacity to meet sales potential this year and next.

Once that is achieved, Phase 3 of our recovery and growth plan includes the potential construction of a new state of the art, scalable, factory in Casper, Wyoming, in the USA. This would take our total manufacturing capacity up to 12,000 tonnes pa with potential to expand capacity further as demand



and sales continue to grow. The proposed US capacity investment brings other potential advantages such as reduced transportation costs, freedom for US tariffs on Chinese imports, and greater efficiencies. Lachie will speak more about that project shortly and how we are preparing to move forward on that project once sales demonstrate sufficient demand to justify the expenditure.

Phase 2 also sees us expanding our range of products. Some excellent work has been done this past year in identifying the leading candidates for expanding our product range and Lachie will also expand on some of these opportunities shortly.

The key goals for **Phase 3** of our plan should see us building the US plant - with increased capacity; building a strong sales pipeline with broad geographic representation; launching other products and services that enable us to address new market segments; and reinvesting in our sales teams globally.

The Board and management team share with shareholders a sense of urgency and impatience in executing on Phases 2 and 3. Covid is still blowing headwinds with restricted travel and lockdowns in China, governments and their municipalities struggling with distractions and costs of managing Covid at a local level, and of course astronomical shipping costs and delays. I don't mention these as excuses, but as further challenges, many of which we hope will be of a short-term nature and will fade over time. They will, however, slow the rebuild of our sales pipeline as selling to governments has always been a slow progress, and more so during Covid.

When I reflect on these 3 Phases of recovery and growth that I have just talked about, they are very typical of what shareholders would expect for a new technology company that had launched into business a year ago. Phoslock, of course, has been in business for a much longer period....but events of the past couple of years have necessitated a complete reset of the business and, in effect, a new start for the company. The current Board and management can't change the past. But we can influence the future. We understand the frustration of all shareholders and we share that frustration.

This is a new start for Phoslock and one we as a Board and management team are determined to succeed in.

I now call on Lachie McKinnon, our Managing Director and CEO, to review Phoslock's 2021 results and operations and to discuss the future prospects for the business.

This announcement has been approved by the Managing Director and Chairman

Mr David Krasnostein AM
Chairman

Mr Lachlan McKinnon
Managing Director & 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