

## MARCH 2023 QUARTERLY ACTIVITIES REPORT: HIGHEST EVER CASH RECEIPTS IN A MARCH QUARTER; 2<sup>ND</sup> CONSECUTIVE QUARTER WITH POSITIVE NET OPERATING CASH FLOWS

### Key Highlights

- **Highest quarterly cash receipts in a March quarter** (approx. \$5.8m)
- **Growth momentum continues** with 16 successive quarters of cash receipts growth vs prior corresponding period
- **Positive net operating cash flows of ~\$19,000**
- **Second consecutive quarter with positive net operating cash flows**
- **Strong results achieved in spite of historical seasonality within the business;** the March quarter historically typically only delivering approx. 20% of total annual cash receipts
- **Strong progress continues operationally with a number of contract awards received during the reporting period** – including new contracts for the supply of water treatment equipment to customers in Queensland and Tasmania
- **Progressing towards NSF (drinking water) certification for new Graphene Oxide membrane;** preparing for commercial launch of domestic water filtration product in H2 2023
- **Company well-funded with cash balance of approx. \$4.8 million** as of 31 December 2022
- **Appointment of senior corporate leader Mr. Andreas Hendrik (Harry) De Wit to the De.mem board (effective 5 April 2023)**

**26 April 2023:** Industrial water and wastewater treatment company De.mem Limited (ASX: DEM) (“De.mem” or “the Company”) is pleased to report strong March Quarter 2023 results.

### Highest Ever Cash Receipts in a March Quarter

De.mem is delighted to report cash receipts of \$5.8m in the March Quarter 2023, the Company’s highest ever cash receipts in a March quarter since inception.

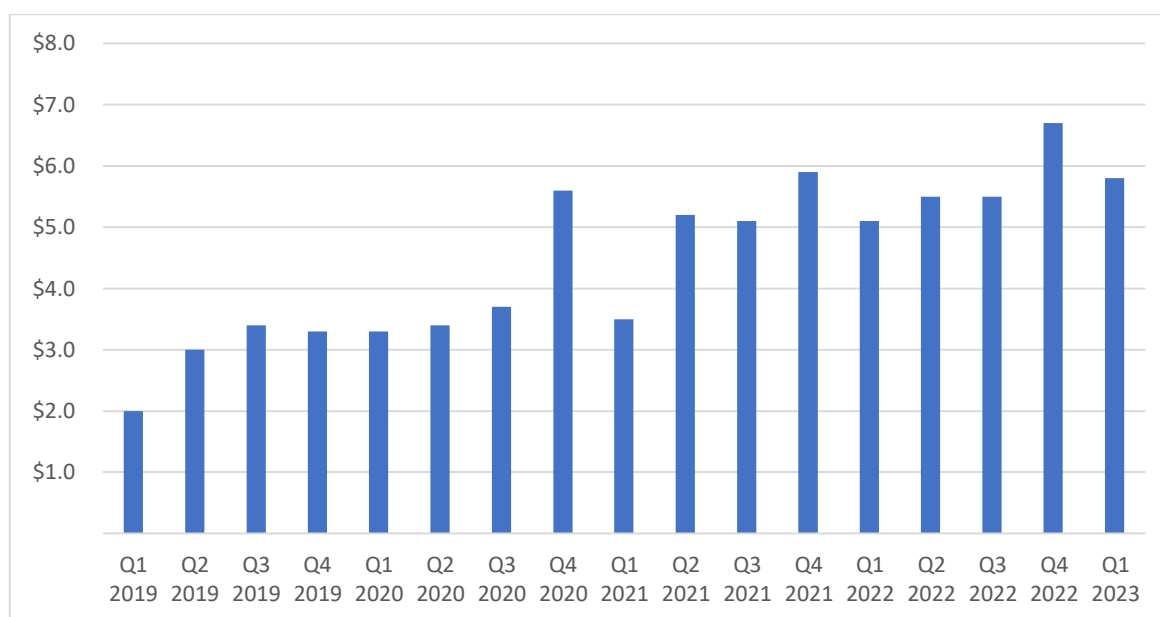
Cash Receipts are up by approx. 14% vs. \$5.1m in the March Quarter 2022 (prior corresponding period or pcp), and by approx. 66% vs. \$3.5m in the March Quarter 2021 (equivalent to a CAGR/constant average growth rate of approx. 29% per annum).

De.mem has now recorded 16 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 and 2023.

Record March Quarter 2023 results indicate continued strong growth momentum and provide a strong basis for further significant growth in the full CY 2023, given the historical seasonality observed within the Company’s business. Historically, the March quarter accounts for approx. 20% of total annual cash receipts only (March Quarter 2022: ~22%; March Quarter 2021: ~18%; March Quarter 2020: ~20%).

More important, the mix of the underlying revenue has been significantly enhanced with a growing portion of recurring revenue (see section below, “Successful Transition to a Stable, High-Margin Recurring Revenue Model”, for further details).

**CHART 1: QUARTERLY CASH RECEIPTS IN \$ MILLION - STRONG GROWTH MOMENTUM WITH 16 QUARTERS OF CASH RECEIPTS GROWTH VS. PCP**



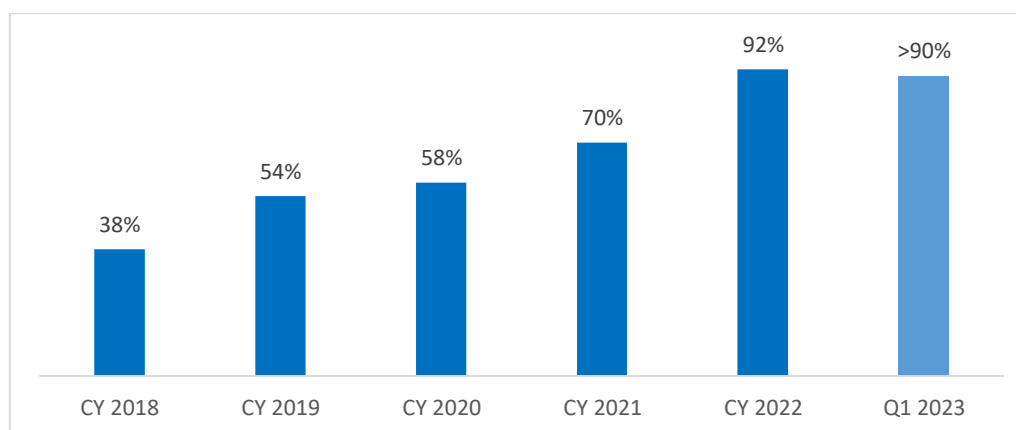
#### **Successful Transition to a Stable, High-Margin Recurring Revenue Model**

In line with the strategy communicated to the Company's shareholders, in CY 2023, growth initiatives remain focused on the Company's recurring revenue segments (see section below, "De.mem Group Business Segments – Focus on Growing Recurring Revenues", for further details).

During the March Quarter 2023, the share of recurring cash receipts vs. the Company's total cash receipts remained at above 90% of total cash receipts, continuing the successful transition from a largely projects based business to a stable, high-margin and high value-add recurring revenue model.

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 industrial key accounts.

**CHART 2: RECURRING CASH RECEIPTS VS. TOTAL CASH RECEIPTS**



#### **Recurring Revenue Model Results in Enhanced Margin Profile**

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% in CY 2017 to 35% in CY 2023).

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. Historically, the March quarter accounts for

approx. 20% of total annual cash receipts only (see section above, "Highest Ever Cash Receipts in a March Quarter", for further details).

### **Positive Net Operating Cash Flows of ~\$19,000 in the March Quarter 2023**

De.mem is pleased to report positive net operating cash flows for the March Quarter 2023 of approx. \$19,000.

The Company had reported positive net operating cash flows for the December Quarter 2022 as well, amounting to approx. \$203,000 (see the Quarterly Activities Report for the December Quarter 2022, lodged to the ASX on 23 January 2023, for further details). Hence, the March Quarter 2023 marks the second consecutive quarter in which the company is reporting positive net operating cash flows.

The results are remarkable as due to the minor seasonality in the Company's business (see section above, "Highest Ever Cash Receipts in a March Quarter", for further details), the March quarter is typically the weakest in terms of cash receipts and net operating cash flows. In the March Quarter 2022 (pcp), the Company reported net operating cash outflows of ~\$-916,000.

The positive results demonstrate De.mem's continued execution of its business strategy to pursue high margin recurring revenue growth whilst maintaining a disciplined cost approach.

### **EBITDA Loss Substantially Reduced Vs. PCP**

De.mem reports an Adjusted EBITDA (EBITDA adjusted for share based payments, business acquisition cost and other items of one-off nature) loss of approx. \$-240,000 for the March Quarter 2023 (unaudited).

The EBITDA loss is substantially reduced compared to the EBITDA loss of \$-470,000 reported for the pcp, March Quarter 2022 (see the Quarterly Activities Report for the March Quarter 2022, lodged to the ASX on 28 April 2022, for further details).

### **Cash Generating Operating Business Offsets Ongoing Investment in Long-Term Growth through R&D, and the Corporate Overhead**

The positive net operating cash flows of approx. \$19,000 reported for the March Quarter 2023 split up as follows:

- Cash inflows generated by the Australian and German operations: Approx. \$380,000;
- Cash outflows to support the operations of the Singapore subsidiary, which is predominantly in membrane R&D: Approx. \$-120,000; and
- Cash outflows to fund expenses related to the holding company, including cost related to listing, corporate administration and overhead: Approx. \$-240,000.

Payments to acquire businesses (line 2.1b in Appendix 4C) relate to a milestone payment for the acquisition of the Capic business (see ASX announcement "De.mem Announces Strategic Acquisition in Western Australia", dated 16 March 2021), as the Capic business achieved the agreed-upon revenue growth threshold of 35% vs. pre-acquisition revenues. 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**

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 to 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.

Over the past years, 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:

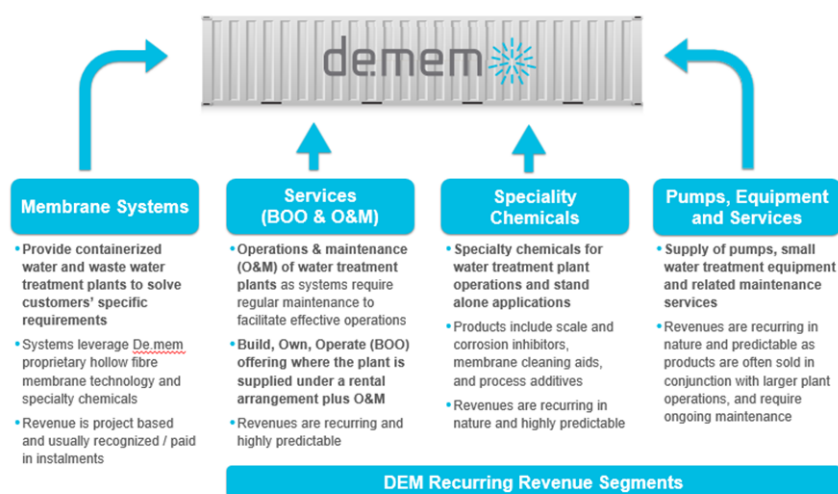
- Build, Own, Operate ("BOO") and Operations & Maintenance ("O&M") contracts.
- Regular maintenance work on water treatment equipment.

- 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 provides a strong foundation for the continued growth of the business in the future.

As of April 2023, De.mem's group structure is as follows:



### **Strong Sales Momentum – New Project Awards During the Quarter**

During the March Quarter 2023, De.mem received a number of important contract awards, which highlight the Company's ongoing growth momentum.

In March 2023, De.mem received a new contract award for the supply of a waste water treatment system to an industrial customer in Queensland, Australia. The project is worth approx. \$420k in revenue. It is expected that most of the revenue from this contract will be recognized in CY 2023.

Furthermore, in March 2023, De.mem received a contract award for the supply of water treatment equipment to an industrial customer in Tasmania. The new business is worth approx. 450k in revenues. It is expected that the revenue will be recorded in full during CY 2023.

De.mem also received additional orders from South 32 related to the contract award received in October 2022 (see ASX announcement dated 17 October 2022 "\$1.4m Water Treatment Plant Award"). The additional orders increase the total value of the contract from \$1.4m to approx. \$1.55m in revenues. It is expected that most of the revenue from this contract will be recognized in CY 2023.

### **World Leading Membrane Technology Provides Strong Competitive Advantage; Progressing with NSF Certification for New Graphene Oxide Membrane and Preparing for Upcoming Commercial Launch**

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 mid-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.

### **De.mem Appoints Senior Corporate Executive to its Board of Directors**

After the end of the reporting period, on 5 April 2023, De.mem announced the appointment of senior corporate leader Mr. Andreas Hendrik (Harry) De Wit to the Company’s board of directors.

Mr. De Wit is a senior corporate executive who has worked in several locations across the globe. He has been the CEO of Asia Pacific for Fresenius Medical Care since 2016. In this role, he is also responsible for the company’s operations in Australia & New Zealand. In addition, he served as a member of Fresenius Medical Care’s management board from 2016 to 2021. Prior to this, Mr. De Wit held further senior corporate roles within the healthcare industry, amongst others with Covidien (previously named Tyco Healthcare).

Fresenius Medical Care is the world’s leading provider of products and services for individuals with renal diseases. The company operates more than 4,100 dialysis clinics and 42 production sites for dialysis products globally. In Australia alone, the group has 23 dialysis clinics and more than 350 staff. Fresenius Medical Care is listed on the Frankfurt Stock Exchange and the New York Stock Exchange, being a member of the German DAX index, which represents 40 of the largest and most liquid companies that trade on German stock markets.

Water treatment and the use of membranes are of key importance for dialysis. While many clinics operate their own waste water treatment processes which are typically relying on membranes, the dialysis process itself deploys hollow fibre membranes – the technology that De.mem is specializing in – serving as artificial kidneys for the patient.

As a non-executive director, Mr. De Wit will support De.mem with its strategic development, sales & marketing, operations and financial performance objectives.

### **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.

De.mem is committed to ESG and believes that it delivers against several of the United Nations’ 17 Sustainable Development Goals – including, for example:

- Goal no. 6: Clean water and sanitation – Ensure availability and sustainable management of water and sanitation for all.
- Goal no. 9: Industry, innovation and infrastructure – Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.
- Goal no. 11: Sustainable cities and communities – Make cities and human settlements inclusive, safe, resilient and sustainable.

In particular, De.mem’s products, services and business model contribute to the above objectives as follows (see the Company’s Investor Presentation, lodged to the ASX on 28 July 2022, slide 18 for further details):

- De.mem's membrane technology and treatment plants clean waste water, facilitate water discharge and water reuse/recycling. During the March 2023 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 new Build, Own, Operate project in Singapore (see the ASX announcement "De.mem signs \$2.1m BOO contract" dated 29 August 2022) will add another approx. 7 million liters of high-quality treated water per quarter to the above.
- De.mem's water treatment systems often facilitate the deployment of a membrane-based separation process using De.mem's proprietary hollow fiber membranes. This process not only relies on lower power consumption, but also meaningfully reduces usage of bulk and other harmful chemicals as only small amounts of high value specialty chemicals are required.
- De.mem's domestic water filtration products are being used by customers to replace bottled drinking water. Hence, they can help to significantly reduce plastic waste. As a benchmark – more than 373 million plastic bottles are used in Australia annually with only 36% being recycled (source: University of Wollongong).

### **CEO Commentary**

De.mem Chief Executive Officer Andreas Kroell said:

*"We are proud to report the second consecutive quarter with 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.*

*We also received important contract awards during the quarter, which, along with our recurring revenue segments, provide a strong basis for further revenue and/or cash receipts growth in CY 2023.*

*Given that the first quarter of a calendar year historically is the weakest in terms of cash receipts and net operating cash flows, this marks a fantastic start into the new year."*

### **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:**

**Andreas Kroell**

CEO, De.mem Limited

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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](http://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.

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## Appendix 4C

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

**Name of entity**

De.mem Limited

**ABN**

12 614 756 642

**Quarter ended ("current quarter")**

31 March 2023

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (03 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>			
1.1 Receipts from customers		5,793	5,793
1.2 Payments for			
(a) research and development		-	-
(b) product manufacturing and operating costs		(3,458)	(3,458)
(c) advertising and marketing		(14)	(14)
(d) leased assets		(125)	(125)
(e) staff costs		(1,837)	(1,837)
(f) administration and corporate costs		(380)	(380)
1.3 Dividends received (see note 3)		-	-
1.4 Interest received		17	17
1.5 Interest and other costs of finance paid		(16)	(16)
1.6 Income taxes paid		(9)	(9)
1.7 Government grants and tax incentives		-	-
1.8 Other (provide details if material)		48	48
<b>1.9 Net cash from / (used in) operating activities</b>		<b>19</b>	<b>19</b>
<b>2. Cash flows from investing activities</b>			
2.1 Payments to acquire or for:			
(a) businesses		(125)	(125)
(b) property, plant and equipment		(152)	(152)
(c) investments		-	-
(d) intellectual property		-	-
(e) other non-current assets		-	-



Consolidated statement of cash flows		Current quarter \$A'000	Year to date (03 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	<b>Net cash from / (used in) investing activities</b>	<b>(277)</b>	<b>(277)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
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	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (lease liabilities)	(106)	(106)
3.10	<b>Net cash from / (used in) financing activities</b>	<b>(106)</b>	<b>(106)</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
	Net Cash and equivalents at beginning of quarter/year to date.	5,104	5,104
4.2	Net cash from / (used in) operating activities (item 1.9 above)	19	19

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (03 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(277)	(277)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(106)	(106)
4.5	Effect of movement in exchange rates on cash held	44	44
4.6	<b>Cash and cash equivalents at end of period</b>	<b>4,784</b>	<b>4,784</b>

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	3,218	3,558
5.2	Call deposits	1,566	1,546
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>4,784</b>	<b>5,104</b>

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	93
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>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.</i>		

<b>7. Financing facilities</b> <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify) Bank overdraft	-	-
7.4 <b>Total financing facilities</b>	-	
7.5 <b>Unused financing facilities available at quarter end</b>		-
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.		

<b>8. Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1 Net cash from / (used in) operating activities (item 1.9)	19
8.2 Cash and cash equivalents at quarter end (item 4.6)	4,784
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	4,784
8.5 <b>Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>	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?	
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?	
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?	
<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: 26 April 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.