Phoslock Environmental Technologies

Annual Report 2018

For the period ended 31 December 2018

Directory

Directors

Laurence Freedman AM
Chairman

Zhigang Zhang (张 志 刚)
Deputy Chairman

Robert Schuitema
Managing Director

Brenda Shanahan
Non Executive Director

Ningping Ma (马 宁 平)
Non Executive Director

Senior Management

Robert Schuitema
Managing Director & Company Secretary

Andrew Winks
General Manager - Global Operations

Nigel Traill
General Manager - International Sales

Tingshan Liu (刘 廷 善)
General Manager - Phoslock Beijing

Zhaopeng (Jason) Hai (海 兆 鹏)
Manager - Changxing Factory

Yanfai (Chris) Hui (许 仁 辉)
Group Accountant

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Investor Relations
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Auditor

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International Towers Sydney
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Sydney NSW 2000 Australia

Share Register

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ASX Listing Code: PET

Contents

Chairman’s Report

Dear Shareholders,

It is six months since my last Chairman's Report, in which time the Company's accounting period has been changed from 30June to 31 December, in order to conform with those of the main countries with which we conduct business.

During the 12 months to December 2018, Phoslock Environmental Technologies Limited (PET) has continued to grow strongly. Revenue for 2018 increased by 130% to $18.7 million. Net Profit before Tax & Options Expenses was $3.4 million, a massive increase from last year's break-even.

Our balance sheet has been recapitalised and today we have over $27 million of current assets, comprising $13 million cash, $11 million receivables and $3 million inventories. We have less than $3 million of creditors and payables.

Putting in place Staff Incentive Options, which raises $6.8 million in new capital - half of which has already been received- was a highly successful inducement to rapidly recruit an experienced management team in China. This team has already generated sales in excess of $25 million at a gross profit margin around 50% and is in advanced development of a number of large projects.

You will be aware of a $3.48 million P&L item shown as 'Option Expense'. This is a non-cash accounting charge dictated by the Australian Accounting Standards Board and has no effect on the cash flow or assets of the Company.

Our three business divisions - International Materials (excluding China), China Materials and China Contracting are all performing well and have a growing pipeline of future transactions, some of which are very large. I am proud to report that our Changxing factory has recently received a number of important accreditations from the International Organisation for Standardisation (ISO), along with an award from the Huzhou Changxing Government as the' Best Mid-Sized Foreign Capital Company'. These awards add to our status and standing, not only in China, but globally and will result in both direct and indirect benefits to the business.

I am pleased to tell you that the Company is now of a size where it is able to seek to acquire "add on" businesses to complement our existing operations, both vertically and horizontally and also give us wider geographic coverage. We now have in place a senior management group which is taking a highly disciplined approach in the search for appropriate value-add acquisitions.

During the year, several changes were made to strengthen the PET Board of Directors. Mr Zhigang Zhang, who is making an outstanding contribution, was appointed Deputy Chairman. Mr Ningping Ma, Deputy General Manager of BHZQ, our strategic partner in China, joined the Board in December, 2018 and is already making a significant contribution. Mrs Brenda Shanahan, with her vast corporate experience, having joined the Board in September, 2017 is playing a very important role in our global expansion and as chairperson of the Audit & Compliance committee.

As a clear sign of our commitment, directors own more than 155 million shares, some 28% of PET's capital.

I am extremely confident about the future. We have now firmly established a significant business base in China and have outstanding, in-depth management and committed directors. At the same time, we are making substantial advances in both applications and pipeline on the International side of the business.

It is worth reminding ourselves that Phoslock Environmental Technologies is a 'pure green 'company. With more than 300 applications world-wide and many independent scientific papers written, it is proven that Phoslock does not harm either aquatic animals or plants. The vast majority of the world's waterbodies are polluted. Your Company is at the forefront of providing remediation which is both cost-effective and, most importantly, it works!

Finally, I would like to thank our employees, executive officers and staff for their significant contribution to the company during the year and, in particular, our Managing Director, Robert Schuitema.

I look forward to continuing our regular updates and expect to provide you with more positive news as the year progresses.

Yours sincerely,

Laurence Freedman AM
Chairman
27th March, 2019

主席报告

尊敬的股东们:

上一次的主席报告是在六个月前，公司的财政年度从六月三十日更改为十二月三十一日，以便我们与公司业务开展的主要国家的财政年度保持一致。

在截至二零一八年十二月三十一日的十二个月中，风斯乐环境技术有限公司(风斯乐)业务继续保持强劲增长。二零一八年的收入增长了百分之一百三十，达到一千八百七十万澳元。除税前和期权费净利润为三百四十万澳元，比去年的收支平衡大幅增加。

我们的资产负债表经过重大的变化，迄今为止我们拥有超过二千七百万澳元的流动资产，包括一千三百万澳元的现金，一千一百万澳元的应收账款和三百万澳元的库存。我们的應付账款和其他應付账不到三百万澳元。

实施员工股票期权激励计划令公司可以从行权费里收到六百八十万澳元的新资本 -- 直到今天其中一半行权费已经收到 -- 这是一项非常成功的激励计划，可以迅速招募一支经验丰富的中国管理团队。该团队已经创造了超过二千五百万澳元的销售额，毛利率约为百分之五十，并且正在进行一些大型项目的高级开发。

您可能会看到一个价值三百四十八万澳元的损益项目，显示为“期权费用”，这是澳大利亚会计准则委员会规定的非现金会计费用，对本公司的现金流量或资产没有影响。

我们的三个业务部门 -- 国际材料(不包括中国)，中国材料和中国工程项目表现都非常良好，并且具有越来越多的未来交易销售渠道，其中一些项目还非常大。除此以外，我很自豪地向股东说，我们的长兴工厂最近获得了国际标准化组织(ISO)的一些重要认证，以及获得了湖州长兴政府的“最佳中型外资公司”的奖项。这些奖项不仅增加了我们在中国的企业地位，并且在全球范围内，这将为我们企业带来直接和间接的利益。

同时也很高兴地告诉大家，公司现在的规模可以寻求获得“附加”业务，以补充我们现有的纵向和横向业务发展，并为我们提供更广泛的地理覆盖范围。我们现在已经建立了一个高级管理团队，该团队正在严谨的寻求适当的增值收购方案。

在过去一年中，风斯乐董事会做了一些改变。为风斯乐公司作出了杰出贡献的张志刚先生被任命为副主席。我们在中国的战略合作伙伴北华中清环境工程技术的副总经理马宁平先生于二零一八年十二月也加入了风斯乐董事会，并且已经为风斯乐公司提供了一些非常重大的帮助。布伦达 • 沙纳汉(Mrs Brenda Shanahan)女士凭借其丰富的企业经验，于二零一七年九月加入风斯乐董事会，在我们的全球扩张和审计与企业治理委员会的主席角色中发挥着非常重要的作用。

作为我们董事承诺的明确标志，风斯乐董事现拥有超过一亿五千五百万股，占风斯乐资本的百分之二十八。

我对风斯乐公司未来充满信心。我们现已在中国建立了重要的业务基地，并拥有出色的，深入的管理和忠诚的董事。与此同时，我们正在国际方面的应用和销售渠道拓展方面取得实质性进展。

值得一提的是，风斯乐环境技术是一家“纯绿色”的公司。拥有全世界超过三百多个的应用案例，并独立发表了许多科学论文，证明我们风斯乐的产品锁磷剂“Phoslock”不会对水生物或植物造成伤害。世界绝大多数的水体都受到污染，风斯乐公司处于提供补救措施的最前端，既有成本效益，而且最重要的是，它真的有效!

最后，我要感谢我们的员工和执行官在这一年中对公司做出的重大贡献，特别是我们的董事总经理罗伯特先生(Mr Robert Schuitema)。

我期待着为您，我们忠实的股东，在随后的一年继续在我们的定期更新里发布更多正面的消息。

此致，

罗伦斯 • 傅利曼
澳大利亚员佐勋章
主 席

二零一九年三月二十七日

Managing Director's Report

In late 2018, the Phoslock Environmental Technologies Limited (PET) Board made the decision to change its financial year from 30 June to 31 December. The financial accounts for 31 December, 2018 are for a six month period. The purpose for this change is to synchronise the financial year ends of the Australian, Chinese, European and North American operations of the Group.

The change in balance date to 31 December, 2018 necessitates the Company to produce an Annual Report in March and hold its Annual General Meeting in May each year.

The key financial performance indicators from the 31 December, 2018 accounts detailed in this Annual Report are:

- Revenue for the six months to 31 December, 2018 was $9.0 million, up 50% comparable to the corresponding six month period to 31 December, 2017;
- Gross Profit Margin of 54.9% (FY17-18: 50.4%);
- Net Profit (before Tax and Option Expense) was $1.6 million, up 61% comparable to the corresponding six month period to 31 December, 2017;
- Balance Sheet has $24 million of Net Assets and is largely debt free, other than normal trade creditors;
- Post 31 December, 2018 balance date (when the audited accounts were signed), Accounts Receivables reduced from $17.7 million to approx. $9 million due to large payments received and cash has increased from $4.9 million to approx. $13 million;
- As at the date of this report, PET had a strong balance sheet, with over $27 million of current assets - $13 million of cash, $11 million of receivables and $3 million of inventories and less than $3 million of creditors and payables.

PET Group has three business segments;

1. International Materials (excluding China);
2. China Contracting; and
3. China Materials

Supporting the business segments is PET's 100% owned modern manufacturing facility in Changxing, China. The Phoslock production line is located at the Changxing facility, along with facilities to make a range of water treatment products and extensive Research & Development testing facilities.

The breakdown of sales and other revenue of $9.3 million for the six months to 31 December, 2018 was 13% from International Materials; 62% from China Contracting; and 25% from China Materials. These figures are for a six month period (not the usual twelve months) and are skewed towards two large projects in China. It does however show how PET has moved from its traditional business mix of Phoslock only sales to a diversified business mix of materials along with engineering services.

China recorded revenue of $7.8 million for the six months to 31 December, 2018. The main project completed during this six month period was the second Beijing wetland project. The wetland is located next to a major Beijing river. The wetlands are designed to divert water into a newly created parkland environment. In creating the parkland environment, existing soils (which are usually contaminated) are replaced with zeolites and volcanic materials, which act as a filter to absorb phosphates and nitrogen. Aquatic plants with nutrient absorption capabilities are added along with walkways for public access and use.

PET Beijing's work involved the movement of over 55,000 tons of zeolites and volcanic materials from northern China to the wetland site. The contract value was approx. $6.5 million. The project involved nearly 2,000 truck movements. The team at Phoslock Beijing has done an exceptional job to manage the raw material procurement, ensuring that the products met our specifications, and transporting the materials over 500 km by road, rail and road to the site, then undertaking the engineering work to create these wetlands. Recently PET Beijing was awarded additional work for this wetland project, valued at $2.7m. This will be recorded in FY2019. A third wetland, albeit smaller than the first two, is currently being added to the project specifications and could be completed in FY2019.

PET sees constructed wetland projects are a core business. These projects require large quantity of materials. PET is looking to acquire deposits either directly or indirectly to lock in a reliable, low cost materials which PET has control over all stages from mine, screening and milling, and transportation to the project site.

Work continued on treating various south Beijing canals with Phoslock, zeolites and bacteria. The water quality has improved significantly since the initial applications in August 2017. Regular addition of materials is required as these canals receive daily inflows of new water, some poor in quality.

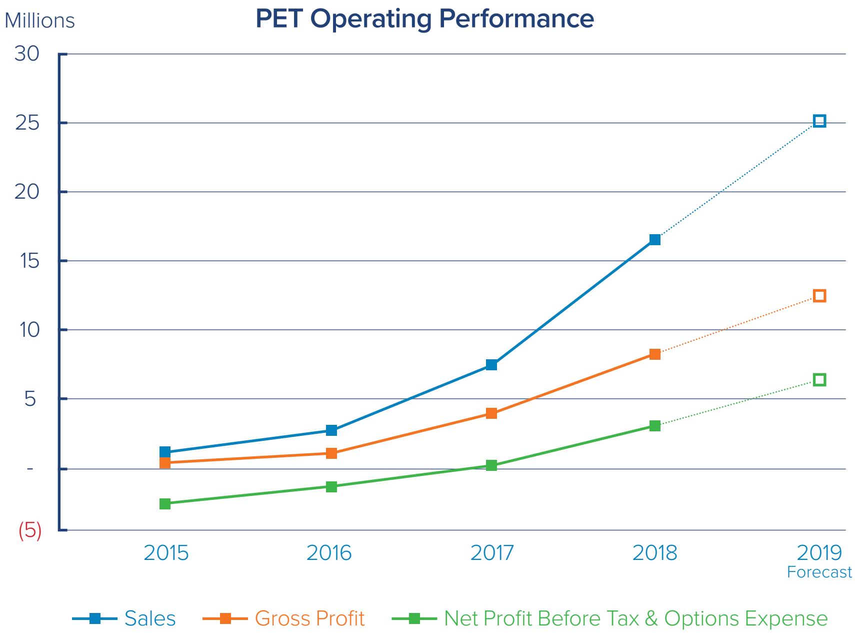
Construction of Wetland Project in Beijing

PET Management visiting wetland project site - Left to right: Yuzhong Yang (Phoslock Beijing); Tingshan Liu (General Manager – Phoslock Beijing); Robert Schuitema (PET Managing Director); Andrew Winks (PET General Manager Operations); Chris Hui (PET Group Accountant)

PET China has signed, over the last nine months, five strategic partnership agreements with large construction companies to undertake work on projects requiring lake and river remediation and wetland construction.

International Materials recorded revenue of $1.5 million for the six months to 31 December, 2018, was lower than previous periods. This is mainly due to timing of projects be undertaken, with a number of projects being worked on, moved into the next period. The largest market for International Materials (excluding China) remains Brazil. Our licensee in Brazil, HidroScience is working on four separate projects including lake Pampulha, which has now moved to a multi-year maintenance contract. Other notable applications took place in the United States, via our licensee, SePRO Corporation, Holland, Germany, Belgium, along with Australia. In total, the International Materials group undertook 18 applications in eight countries.

The pipeline for International projects for FY2019 and FY2020 is in the range of $20-25 million*. The International pipeline also includes a number of large lake projects which require approvals and funding. The total value of these additional pipeline projects is in the range of $40-60 million*.



PET completed the buying out the 40% of Phoslock Europe GmbH (PE) that it did not already own. PET International team has been expanded with the addition of several senior water industry executives from PE shareholder.

To enable shareholders to better compare historical financial performance, the Company has presented the financial information for Calendar Years 2015, 2016, 2017 and 2018. The key financials are graphically presented above.

The Company is currently forecasting
* FY2019 Revenue in the range $27m - $30m, up ~ 55% on FY2018;
The FY2019 Net Profit (before Tax and Option Expense) forecast* is in the range $6m-$8m, up ~100% on FY2018;
*Both these forecasts and those of International sales are Forward Looking Statements – please refer to statement at the end of the Managing Director's Report.

Application of Phoslock and zeolites to Beijing canals

The current pipeline for 2019 has eight new projects in an expanding geographic area, underwriting strong sales for the year. All require a range of PET products and engineering services.

In China, PET has signed five strategic partnerships with large construction companies to undertake work on projects requiring lake and river remediation and wetland construction.

Phoslock Beijing also secured several water quality remediation contracts in south and south western China. The projects start as trials however success in the trails could lead to some very large and multi-year contracts. One of the key focuses for this year is to expand our Chinese business in other parts of China. PET already has on the ground representation in several provinces in the south and south west of China.

Supporting PET's businesses is its wholly owned manufacturing facility in Changxing, which commenced production in September, 2017. PET has a five-year lease (to March 2022) on a 6,000 square metres two story factory in the Changxing Economic Zone.

Changxing is 150 km from Shanghai and similar distant to two important export ports. Changxing is part of the central China industrial heartland and an ideal place for a manufacturing facility.

The Changxing manufacturing facility provides PET with enormous flexibility in manufacturing Phoslock and mixing and producing other water treatment materials. PET has established a large laboratory and R&D testing facility at the Changxing factory to ensure Quality Control on our products, and to develop new water treatment products particularly for the Chinese market.

The Changxing Factory recently received ISO accreditation from TÜV Rheinland, a leading 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.

During the six months, PET has been involved with over ten new products or devises, which it has testing and trialled in either Australia or at the Changxing R&D facility. A number of these products have advanced to further testing and several are being used in commercial projects. The PET Board has recently committed significant expenditure to expanding our R&D, including new facilities in Beijing and southern China.

In February, 2019 PET Changxing received an award at a gala presentation evening as best mid-sized Foreign Capital Company from the Huzhou Changxing Government.

The challenge for a rapidly growing company like PET, is to ensure it has sufficient working capital to fund the expanded business base, particularly in China. During the six months to December 2018, PET undertook a Share Placement to institutional and large investors raising $5.5 million. A further $3.15 million was received from the options issued in April, 2017 from CEC and their associates.

35 million Performance Options issued to employees and consultants in mid 2017, achieved their performance criteria and vested in two tranches - September and December 2018. A small number of options (1.5 million) were exercised in December 2018 with a further 13.4 million exercised post balance date in FY2019 raising $1.4 million in new equity. The remaining 20.1 million options are exercisable between now and 20 December, 2019 and will most likely bring in an additional $2.1 million in new equity. This will further strengthen the PET balance sheet and help accelerate growth of the PET businesses.

As at the date of this report, PET had a strong balance sheet, with over $27 million of current assets - $13 million of cash, $11 million of receivables and $3 million of inventories and less than $3 million of creditors and payables.

The PET senior management team that was put in place in mid 2017 remains unchanged and is working well to grow the Company. Mr Tingshan Liu (刘 廷 善) is General Manager of Phoslock

Beijing. Mr Liu has a team of nearly 30 in the Beijing office and several other satellite offices, focusing on design, engineering, contract implementation and execution; and managing water related projects. He brings a wealth of experience in the water contracting business. Mr Zhaopeng (Jason) Hai (海 兆 鹏) is Manager of the Changxing Factory. Over the last six months Mr Hai oversaw the ISO accreditation for the Changxing factory and accepted a foreign business award for excellence from the Huzhou Changxing Government on behalf of the company. Mr Yanfai (Chris) Hui (许 仁 辉), is the Group Accountant based in Sydney with responsibility for the financial oversight of our International and Chinese subsidiaries and tax planning for the group. He is ably assisted by Ms Yinxue (Catherine) Wang (王 吟 雪) in Beijing and Mr Shufeng (Alan) Sun (孙 树 锋) in Changxing.

The other two members of the senior management team are Mr Nigel Traill, General Manager – International Sales and Mr Andrew Winks, General Manager – Operations. Nigel is approaching 20 years of service with PET and Andrew, 15 years of service. Both have made enormous contributions to the PET business over a long period of time.

During this financial year, several changes were made to strengthen the PET Board of Directors. Mr Zhigang Zhang was appointed Deputy Chairman. Mr Ningping Ma, Deputy General Manager of BHZQ joined the Board in December, 2018 and will provide more guidance and connections to allow PET to grow its China business. Mrs Brenda Shanahan who joined the PET Board in September, 2017 is chairperson of the Audit & Compliance committee. Chairman Laurence Freedman AM took up the challenge in 2011 of transforming a micro-cap company with a market capitalisation

Mr Jason Hai, Manager – Changxing factory, fourth from the left, receiving an award for the best mid-sized Foreign Capital Company from the Huzhou Changxing Government.

of $10 million into a diversified water technology and solutions company, which today has a market capitalisation of over $220 million remains very involved in guiding the company forward. The Board members currently hold in excess of 155 million PET shares equivalent to 28% of PET's capital. The collective view of the Board is that PET has just started its next stage of growth and has unlimited potential to be a large company in the water services sector.

PET is now at a size where the company can look at acquiring "add on" businesses to complement its existing businesses and also provide wider geographic coverage. The company will take a disciplined approach to any acquisitions to ensure shareholders are getting value for the investment.

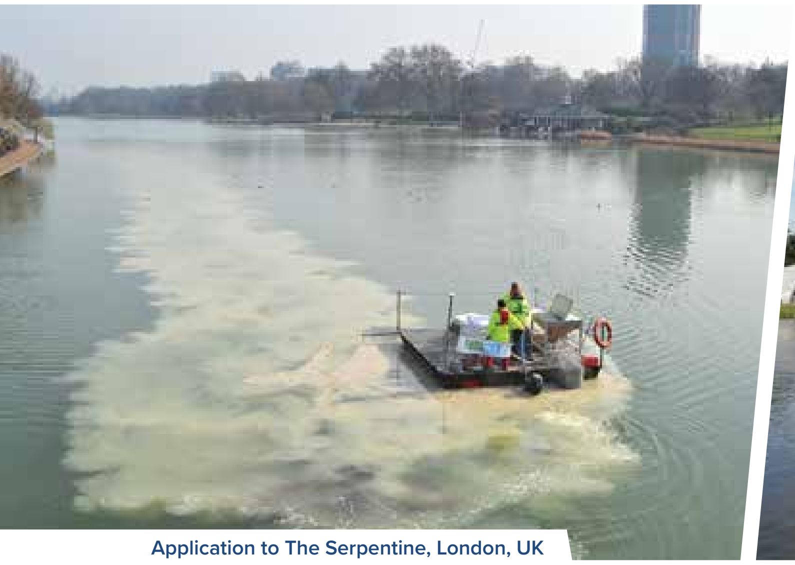
The number of PET shareholders continues to significantly increase - currently nearly 3,000. With a large increase in sales, profitability (excluding option expense) and a significantly improved balance sheet and market capitalisation in excess of $220 million, PET has become a more attractive investment option for investors. The company has increased its Investor Relations activities aimed at getting PET in front of more investors and stockbrokers, not only in Australia and New Zealand but in key Asian markets of Singapore, Hong Kong and China. Today approx. 20% of PET stock is held by Singaporean, Hong Kong and Chinese investors. Institutional shareholding in PET is currently 8% and growing.

The Board and senior management are very excited about the outlook for PET in FY2019 and beyond. PET now has three meaningful businesses segments each with strong growth prospects. We look forward to keep PET Shareholders advised of major developments in our business.

Robert Schuitema
Managing Director
27th March, 2019

*Forward Looking Statements - The Managing Director's Report includes forward looking statements. Forward looking statements are only predictions and are subject to risks, uncertainties and assumptions which are outside the control of the Company. These risks, uncertainties and assumptions include commodity prices, currency fluctuations, economic and financial market conditions in various countries and regions, environmental risks and legislative, fiscal or regulatory developments, political risks, project delay or advancement, approvals and cost estimates. Actual values, results or events may be materially different to those expressed or implied in this Report. Any forward looking statements in this presentation speak only at the date of issue of this Report. Subject to any continuing obligations under applicable law and the ASX Listing Rules, the Company does not undertake any obligation to update or revise any information or any of the forward looking statements in this presentation or any changes in events, conditions or circumstances on which any such forward looking statement is based.

Construction of Wetland Project in Beijing



Application to The Serpentine, London, UK

Application to Lake Pampulha, Brazil

Application to UK Historic Home

Application to European Lake

US Wetland Project application

Applying Phoslock and modified Zeolite to Beijing Canal

Australian lake application covered by local media

Application to European drinking water reservoir

Australian inner city lake application

Directors' Report

Your directors present their report on the Company and its Controlled Entities ("the consolidated entity" or "Group") for the period ended 31 December 2018.

Directors

The names of directors in office at any time during the period or since the end of the period are:

- Mr Laurence Freedman AM
- Mr Robert Schuitema
- Mr Zhigang Zhang
- Mrs Brenda Shanahan
- Mr Ningping Ma (appointed on 5 December 2018)

Company Secretary

Mr Robert Schuitema – Chartered Accountant (CA), Bachelor of Commerce & Administration (BCA),
Member of NZ Investment Analysts (INFINZ).

Operating and Financial Review

Principal Activities

The principal activities of the consolidated entity during the period were providing design, engineering and project implementation solutions for water related projects and water treatment products to clean up lakes, rivers, canals and drinking water reservoirs. The Company is headquartered in Sydney, Australia and has sales and marketing offices in Australia, China, Germany, UK and licensees and sales agents in 10 countries. The Company operates a large multi-purpose manufacturing facility at Changxing, central China. The Company devotes significant resources on the evaluation and development of new water treatment products and technologies through in-house development, licensing arrangements or acquisition.

Change in Accounting Period

PET changed its financial year end from 30 June to 31 December. The financial accounts for 31 December 2018 are for a six month period. The purpose of the change is to synchronise the financial year ends of the Australian, Chinese, European & North American operations of the Group.

Operating Results

Sales revenue was $8,985,878 for the six months (FY2018 (12 months): $15,707,100). Net operating profit before option, finance costs and tax for the six months was $1,600,182 (FY2018 (12 months): $2,852,748).

Gross profit was $4,932,956 for the six months (FY2018 (12 months): $7,919,783). The gross profit margin was 54.9% for the six months (FY2018 (12 months): 50.4%). The gross profit margin increased due to construction and engineering work undertaken and cost savings in the production of water treatment products from the Changxing manufacturing facility.

Operating expenses excluding option expenses, depreciation and amortisation, and finance costs for the six months to 31 December 2018 were $3,613,197 (FY2018 (12 months): $5,465,225). Annualizing the six months operating expenses, the major increases were employee costs, occupancy and director/listing & professional fees. During FY2018 employee numbers increased by 40 employees to 60 employees. The majority of the new employees were in Beijing sales and project implementation team, and workers at our manufacturing facility in Changxing. For the six months to 31 December 2018 employee numbers increased by a further net seven employees. The Company is looking to increase employee numbers by a further 10 - 15 over the next 12 months with additional sales specialists in China, additional technical and research & development professionals in Changxing and

The break-down of the Group operating performance was:

6 months ended 31 December 2018	Total Revenue & Other Income	Operating Performance
International operations	$1,488,366	$226,108
China operations	$7,834,324	$2,146,989
	$9,322,690	**$2,373,097**
Corporate charges *		($772,915)
Operating profit		**$1,600,182**
Exchange gain/loss		$38,602
Option charges **		($1,781,824)
Net loss before tax		**($143,040)**
Income tax expense		($525,800)
Net loss after tax		**($668,840)**

* Including directors' fee, listing cost and holding company expenses

** Non cash option expense relating to June 2017 performance options issued as part of new business combination.

additional technical sales specialists in the international operations.

Net operating profit before option, finance costs and tax for the six months to 31 December 2018 was $1,600,182 (FY2018 (12 months): $2,852,748).

During the year ended 30 June 2017, the Company issued a total of 65 million performance options to shareholders, executives, employees and consultants. These performance options as disclosed in Note 25 include varying terms and conditions amongst the option recipients, including varying grant dates, start dates, vesting periods and vesting conditions. The option cost for the six months to 31 December 2018 was $911,522. In addition, an amount of $870,302 has been bought forward from the period 1 January 2019 to 30 June 2019 into the current period accounts as the performance criteria for all performance options has been met nine months in advance (for 20 million performance options) and six months in advance (for 15 million performance options). The total option expense for the six months to 31 December 2018 is $1,781,824. The option expense is non-cash and does not affect the underlying operating performance of the Company.

The issuance of options to executives, employees and consultants provides an effective remuneration tool to align the interests of employees and shareholders. The option issuance in June 2017, which included significant performance milestones, has created a new business structure in China and accelerated the development of international business, has been successful. All performance options have now vested. Sales since the Company announced the performance option issue in April 2017 was approx. $26m to the period to 31 December 2018.

The Company's Chinese subsidiary companies pay various taxes in China including company tax on its profits. This resulted in an income tax expense of $525,800 for the six months (FY2018 (12 months): $805,553).

The consolidated result for the consolidated entity for the six months after providing for income tax and non-controlling interests amounted to a loss of ($668,840) (FY2018 (12 months): profit of $108,026). This included the option expense of $1,781,824 (FY2018 (12 months): $1,815,966). If the option expense is added back, the underlying profit of the Company is $1,112,984 for the six months to 31 December 2018 (FY2018 (12 months): $1,923,992).

Current assets of the Company as at 31 December 2018 were $25,497,025, made up of cash ($4,878,095); trade and other receivables ($17,762,206) and inventories ($2,408,321) and other assets ($484,403). Cash payments to suppliers and employees for the six months period was $11,553,890 (FY2018 (12 months): $11,389,771). A significant amount of this payment for the six months period was to the suppliers for the completion of Chinese projects. During January 2019 Rmb 45 million (approx. A$9.2 million) was received from trade receivables for the corresponding projects, reducing trade receivables as at 31 January 2019 to approx. $8.5 million. PET cash increased to $13.7 million as at 31 January 2019.

Current liabilities of the Company as at 31 December 2018 were $3,445,734 made up of trade and other payables ($2,114,567); employee provisions ($388,160); tax payable in China ($871,192) and revenue from a customer received in advance ($71,815).

Current assets less current liabilities as at 31 December 2018 were $22,051,291 (FY2018: $11,819,960).

Plant & equipment decreased by $8,031 to $1,465,992. New plant & equipment for the six months to 31 December 2018 totaled $112,655. This was mainly for the Changxing manufacturing facility.

During the six months to 31 December 2018 the Company raised a total of $8,843,501 (including capital raising costs of $241,392) in new equity via a share placement to institutional and sophisticated investors and the conversion of employee options and unlisted options into shares. In addition, a shareholder loan of $310,022 to Phoslock Europe's 40% shareholder was repaid at the same time that the 40% shareholding interest was purchased. This resulted in a significant improvement in the balance sheet. The Company's net assets improved to $23,996,741 as at 31 December 2018. The Company's gearing ratio as at 31 December 2018 (including trade creditors) was (12.6%) (FY2018: 3.4%).

Dividends Paid or Recommended

No dividends have been paid or declared for payment in relation to the period ended 31 December 2018 (FY2018: Nil).

PET Financial Performance review for last four years

Phoslock Environmental Technologies Limited (PET) has changed its financial year to 31 December to synchronise the Australian, Chinese, European & North American operations of the Group under one common balance date.

PET is required to produce an audited account for the six months to 31 December 2018. Thereafter the financial year will be 1 January 2019 to 31 December 2019.

To assist shareholders better understand the financial performance of PET, the Company has taken the six monthly financial accounts of PET since 2015 and presented financial information for calendar years 2015, 2016, 2017 and 2018. The key financial numbers – Sales; Gross Profit; Net Profit before Tax (before Option Expense) are shown in the graph below.

Review of Operations

The six months to 31 December 2018 was the second period (now 18 months in total) of the new business structure of the Company. This resulted in sales revenue for the year of $8,985,878 for the six months to December 2018. Sales since the new business combination started on 1 July 2017 now total nearly $25 million and at a gross profit margin in excess of 50%.

PET signed a strategic agreement to work together on water projects in China in May 2017 with BHZQ Environmental Engineering Technology Company Limited. BHZQ is 70% owned by Beijing Enterprises Water Group (BEWG), a Hong Kong listed company with an A$8 billion market capitalization. BEWG is the largest water treatment company in Asia and one of the top ten water companies in the world.

Beijing Ecosystime Environmental Science and Technology Co., Ltd (BEST, which is 100% owned by PET) has formed a team of experienced engineers and project implementation experts that can undertake end-to-end design, engineering, project site works, application and maintenance of water remediation in rivers, canals, wetlands and lakes across China using PET's traditional material (Phoslock) and a range of other remediation products (zeolites, bacteria and other products).

BEST recorded sales of $7,817,763 for the six months to 31 December 2018. The major projects undertaken were treatment of polluted canals in Beijing using Phoslock and a range of other remediation products. The largest project undertaken was the second wetland project in south Beijing which required the delivery of 55,000 tons of zeolites and other materials. This project was completed in December 2018. In the 18 months of operation, the majority of BEST's business has been in and around Beijing. BEST has developed representation during the year in four other cities covering the south, south west, west and central China. This is important to develop the business throughout China.

BEST is currently working on several projects where if the initial work is successful, the size of the project will increase significantly.

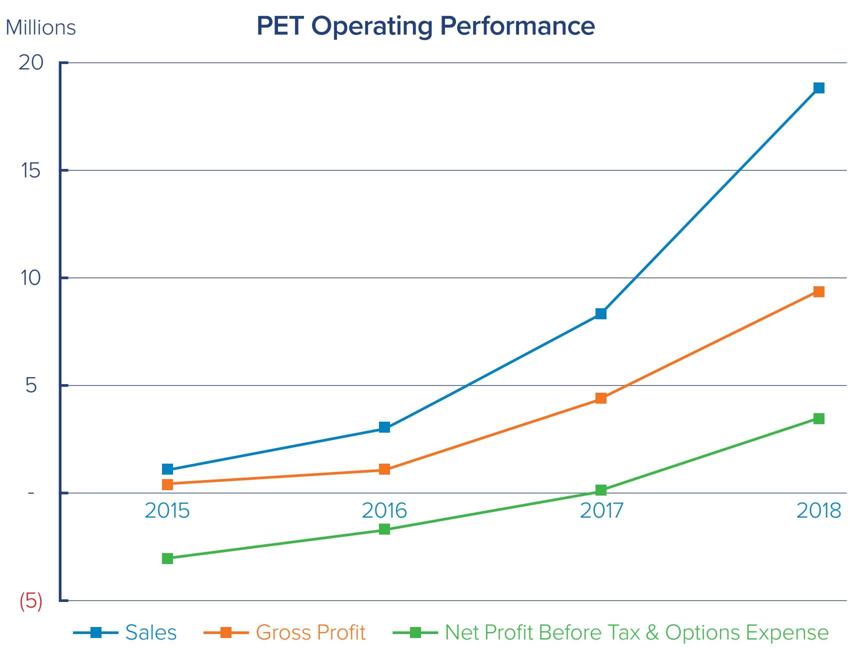
PET's international business (excluding China) recorded revenue of $1,168,115 for the six months to 31 December 2018. International applications are dependent on clients obtaining approvals and financing for projects. Several projects were delayed into FY2019. The pipeline for International projects for the coming two years is in the range of $20-25 million. The international pipeline also includes a number of large lake projects which require approvals and funding. The total value of these additional pipeline projects is in the range of $40-60 million.

55% of international sales came via the Company's Brazilian licensee, HidroScience, which participated as a member of a consortium to undertake work on the restoration of Pampulha, a large inner-city lake. The Pampulha contract was completed by early 2018. In order to maintain Pampulha's water quality the consortium secured an ongoing maintenance contract to apply Phoslock into it. HidroScience is also working on a number of reservoirs and other lakes in northern and central Brazil.

Continued progress was made during the period in the development of the Phoslock business in North America, in both Canada and the United States. Sales for the six months to 31 December 2018 were 26% of total international sales. Our US licensee, SePRO Corporation, has developed a strong retail and midmarket business. Major focus has been placed on a targeted number of large projects (100 tons to 10,000 tons). The North American market offers great potential for Phoslock with a large pipeline of potential and advanced projects in this region.

Australian sales made up 16% of international sales. A number of smaller projects were undertaken during the year, most of them from repeat customers.

The construction of a wholly owned and operated manufacturing facility in Changxing, China was completed in



August 2017 within budget. Changxing is located 150km from Shanghai and its export ports and is serviced by excellent transport including the high-speed train. The Changxing Economic Development Board has provided a range of rebates and tax incentives covering the first five years of operations. A number of the incentives are linked to sales revenue from the manufacturing facility. The manufacturing facility has an initial production capacity of 15,000 tons per annum of Phoslock products and can be expanded to 45,000 tons per annum with the addition of extra equipment. The manufacturing facility is 6,000 square metres and has significant room for the Phoslock operation, manufacturing and blending of other materials and storage areas for raw materials and inventories. The new factory operates under strict EPA requirements including no discharge of water and air pollutants. All waste water is treated in-house in a state-of-the-art waste water treatment facility. Since the manufacturing facility was commissioned in October 2017, the facility has meet design parameters and met target production costs. The Phoslock production line is currently being run to meet forecast demand.

Financial Position

The net assets of the consolidated entity were $23,996,741 as of 31 December 2018, an improvement of $9,939,847 as of 30 June 2018. The increase in net assets is mainly as a result of equity raisings totalling $8,843,501 (including capital raising costs of $241,392) from a share placement to institutional and sophisticated investors and the conversion of employee options and unlisted options into shares. In addition, a shareholder loan of $310,022 to Phoslock Europe's 40% shareholder was repaid at the same time that the 40% shareholding interest was purchased. Improved business activities led to increased inventory holdings, receivables and plant & equipment. As at 31 December 2018 the Company had no external loans. Its liabilities were made up of trade and other payables, employee annual leave and long service leave provisions and tax payable.

Capital Management

During the six months to 31 December 2018 the Company issued $5,536,001 of new equity (15.4 million ordinary shares at 36 cents per share) and received $3,307,500 from the exercise of 31.5 million performance options. This resulted in a significantly improved balance sheet and liquidity which has enabled the Company to grow its businesses in China and internationally. As a result, net assets of the Company have increased from $14 million as at 30 June 2018 to $24 million as at 31 December 2018.

Future Developments, Prospects and Business Strategies

To improve the consolidated entity's earnings performance and maximize shareholder value, the following initiatives are in progress:

(i) Diversifying the Company's business base through its design, engineering and project implementation team which will not only be a new source of revenue but increase sales of Phoslock and other materials in these projects;

(ii) Rapid expansion of the design, engineering & construction and materials business throughout China;

(iii) Large one-off projects in China, North & Southern America, and Europe;

(iv) Lower production and distribution costs of Phoslock and other materials through the Changxing manufacturing operation;

(v) Evaluation and development new water treatment products and technologies through in-house development, licensing arrangements or acquisition.

Significant Changes in State of Affairs

During the six months to 31 December 2018 the Company issued $5,536,001 of new equity (15.4 million ordinary shares at 36 cents per share) and received $3,307,500 from the exercise of 31.5 million performance options. This resulted in a significantly improved balance sheet and liquidity which has enabled the Company to grow its businesses in China and internationally. As a result, net assets of the Company have increased from $14 million as at 30 June 2018 to $24 million as at 31 December 2018.

Events after the Reporting Period

On 18 January 2019, 12.2 million performance options were exercised into 12.2 million ordinary shares, raising $1.281 million.

During January 2019 Rmb 45 million (approx. A$9.2 million) was received from trade receivables, reducing trade receivables as at 31 January 2019 to approx. $8.5 million ($17.7 million as at 31 December 2018). PET cash increased to $13.7 million as at 31 January 2019.

Environmental Issues

The consolidated entity's operations are subject to environmental regulation of the territories in which it operates. Details of the consolidated entity's performance in relation to environmental regulation are as follows:

- The Company commits to comply with all regulations governing the use and application of its water technology products both in Australia and internationally. In Australia, Phoslock is imported from a manufacturing operation in China that has received NICNAS certification. The certification is renewed annually.
- Phoslock has been awarded the North American Drinking Water certification (NSF/ANSI 60) since 2011. The certification is renewed annually.
- In January 2019 , the Company's Changxing factory received the following accreditation from TÜV Rheinland, a German engineering accreditation agency:
  - ISO 9001 – certification showing that the company's Quality Control and Documentation of all procedures meets international standards set by ISO – International Standards Organisation for Quality Management Systems;
  - ISO 14000 – Environmental Management Standards Certification;
  - OSHA 18000 - Health and Safety Management Systems.

- Phoslock has been certified by Chinese Research Academy of Environmental Sciences (CRAES). Phoslock is classified as a general environmental substance. It is neither hazardous nor harmful to the environment. Phoslock has low risk to the hydro ecological system.
- Internationally, the Group is committed to comply with all local regulatory authority requirement.

The directors are not aware of any breaches of environmental regulations by the consolidated entity in any of the regions in which the Company operates.

Remuneration Report (Audited)

Remuneration Policy

The remuneration policy of Phoslock Environmental Technologies Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering bonus payments based on the consolidated entity's financial results. The Board of Phoslock Environmental Technologies Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the high-quality executives and directors to run and manage the consolidated entity, as well as create goal congruence between directors, executives and shareholders.

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company.

The Board's policy for determining the nature and amount of remuneration for board members and senior executives of the consolidated entity is as follows:

- The remuneration policy, setting the terms and conditions for the executive director and other senior executives, was developed by the remuneration committee. The remuneration committee currently comprises of only non-executive directors. The Company has adopted the ASX recommendation for the remuneration committee to comprise only non-executive directors.
- All executives receive a base salary (which is based on factors such as length of service and experience), superannuation and share options or a bonus (if certain milestones are met). The remuneration committee reviews executive packages annually by reference to the consolidated entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries. Executives and directors do not receive any other retirement benefits.
- All remuneration paid to key management personnel is measured at cost to the Company and expensed. Bonuses totalling $25,328 were paid to five key management personnel for the six months ended 31 December 2018 (FY2018: $65,248).

The remuneration of all senior executives was reviewed by the Remuneration Committee in September, 2018.

The Board's policy is to remunerate non-executive directors by reference to market rates for comparable companies, time commitment, responsibilities and experience relevant to the industry. The remuneration committee determines payments to non-executive directors and reviews their remuneration annually based on market practice, duties and accountability.

The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. The current aggregate maximum sum available for remuneration of non-executive directors is set at $500,000 per year (approved at the 2017 Annual General Meeting). Fees for non-executive directors are not linked to the performance of the consolidated entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company and are able to participate in share placements on the same terms as other investors subscribing for shares.

The aggregate of non-executive director fees (including superannuation) for the six months ended 31 December 2018 was $140,583 (FY2018 (12 months): $338,678). As at 31 December 2018, the Board comprised four non-executive directors and one executive director. The five directors, directly and indirectly, held 155,843,719 (FY2018: 142,263,530) ordinary fully paid shares in the Company as at 31 December 2018 which comprised 29.5% (30 June 2018: 29.5%) of the total issued shares of the Company.

Remuneration

The executive director and five executives were paid a bonus totalling $25,328 for the six months ended 31 December 2018 (FY2018 (12 months): $65,248). No shares or options or performance rights were issued to any PET executive of director during the six months period. A share placement was made to professional investors in July 2018. Neither of the directors nor executives participated in the July 18 placement.

In considering the Group's performance and benefits for shareholder wealth, the Remuneration and Nomination Committees considered the following metrics over the last five years:

	6 months ended	12 months ended			
	31 December 2018	30 June 2018	30 June 2017	30 June 2016	30 June 2015
Sales revenue	8,985,878	15,707,100	3,825,406	1,730,649	838,632
Operating profit	1,600,182	2,852,748	(1,539,497)	(1,257,094)	(1,297,000)
Profit/(loss) before option expense and tax	1,638,784	2,729,545	(1,786,805)	(2,110,917)	(2,908,573)
Net (loss)/profit after tax	**(668,840)**	**108,026**	**(3,387,396)**	**(2,313,899)**	**(2,982,981)**

Key Management Personnel Remuneration

	Short-term Employment Benefits				Post Employment Benefits	Long-term Benefits	Share Based Payments	Total	Performance Related
31 December 2018	Salary, Fees & Commissions	Non Monetary	Bonus	Allowance	Superannuation	Accrued Long Service Leave	Shares & Options		
Directors	$	$	$	$	$	$	$	$	%
Mr Robert Schuitema	175,547	-	-	38,250	18,880	8,347	146,498	387,522	37.8%
Mr Laurence Freedman	50,000	-	-	-	5,000	-	-	55,000	0.0%
Mr Zhigang Zhang	37,500	-	-	-	3,750	-	-	41,250	0.0%
Mrs Brenda Shanahan	35,000	-	-	-	3,500	-	-	38,500	0.0%
Mr Ningping Ma (i)	5,833	-	-	-	-	-	-	5,833	0.0%
	303,880	-	-	**38,250**	**31,130**	**8,347**	**146,498**	**528,105**	27.7%
Executives KMP									
Mr Nigel Traill	82,498	-	-	20,774	8,250	5,039	97,665	214,226	45.6%
Mr Andrew Winks	73,500	-	-	13,000	8,650	5,007	97,665	197,822	49.4%
Mr Chris Hui	46,900	-	-	2,850	10,585	-	63,401	123,736	51.2%
Mr Tingshan Liu	62,823	-	9,144	4,171	20,106	-	1,051,878	1,148,122	91.6%
Mr Zhaopeng (Jason) Hai	42,483	-	16,184	-	11,196	-	50,067	119,930	41.7%
	308,204	-	**25,328**	**40,795**	**58,787**	**10,046**	**1,360,676**	**1,803,836**	**75.4%**
Total	**612,084**	-	**25,328**	**79,045**	**89,917**	**18,393**	**1,507,174**	**2,331,941**	**64.6%**

	Short-term Employment Benefits				Post Employment Benefits	Long-term Benefits	Share Based Payments	Total	Performance Related
30 June 2018	Salary, Fees & Commissions	Non Monetary	Bonus	Allowance	Superannuation	Accrued Long Service Leave	Shares & Options		
Directors	$	$	$	$	$	$	$	$	%
Mr Robert Schuitema	295,191	1,082	22,515	67,400	25,000	26,135	146,900	584,223	25.1%
The Hon. Pam Allan (ii)	79,167	-	-	-	7,917	-	-	87,084	0.0%
Mr Laurence Freedman	100,000	-	-	-	10,000	-	-	110,000	0.0%
Mr Zhigang Zhang	73,305	-	-	-	7,330	-	-	80,635	0.0%
Mrs Brenda Shanahan	55,417	-	-	-	5,542	-	-	60,959	0.0%
	603,080	1,082	22,515	67,400	55,789	26,135	146,900	922,901	15.9%
Executives KMP									
Mr Nigel Traill	159,999	-	14,167	-	18,032	27,107	97,933	317,238	30.9%
Mr Andrew Winks	130,000	-	10,833	29,400	20,923	26,102	97,933	315,191	31.1%
Mr Tingshan Liu	106,219	-	8,140	3,193	36,815	-	1,054,868	1,209,235	87.2%
Mr Changqing Jia	67,608	-	5,495	2,474	32,678	-	-	108,255	0.0%
Mr Zhaopeng (Jason) Hai	78,956	-	4,098	-	18,684	-	50,205	151,943	33.0%
	542,782	-	42,733	35,067	127,132	53,209	1,300,939	2,101,862	61.9%
Total	**1,145,862**	**1,082**	**65,248**	**102,467**	**182,921**	**79,344**	**1,447,839**	**3,024,763**	**47.9%**

(i) Mr Ningping Ma was appointed on 5 December 2018

(ii) Ms Pam Allan retired on 22 November 2017

Shares & Options

Shares Held and Movements for the six months ended 31 December 2018 for Key Management Personnel

The movement for the six months ended 31 December 2018 in the number of ordinary shares in Phoslock Environmental Technologies Limited held, directly, indirectly or beneficially, by each key management personnel, including their related parties is as follows:

	Balance 01.07.2018	Purchased	Options Exercised	Transfer to/ from Non-Related Party	On Market Sales	Off Market Sales	Balance 31.12.2018
Key Management Personnel	**No.**	**No.**	**No.**	**No.**	**No.**	**No.**	**No.**
Mr Laurence Freedman	88,214,250	-	-	-	-	-	88,214,250
Mr Robert Schuitema	14,081,663	-	-	(1,325,391)	-	(1,713,800)	11,042,472
Mr Zhigang Zhang	32,500,000	-	20,000,000	(10,833,333)	-	(5,000,000)	36,666,667
Mrs Brenda Shanahan	1,000,000	300,000	-	-	-	-	1,300,000
Mr Ningping Ma	-	-	3,000,000	3,250,000	(938,000)	-	5,312,000
Mr Nigel Traill	4,247,244	-	-	-	-	-	4,247,244
Mr Andrew Winks	1,720,373	-	-	-	-	-	1,720,373
Mr Chris Hui	-	5,500	-	-	-	-	5,500
Mr Tingshan Liu	500,000	-	3,500,000	4,333,333	(998,120)	-	7,335,213
Mr Zhaopeng (Jason) Hai	-	-	-	-	-	-	-
Total	**142,263,530**	**305,500**	**26,500,000**	**(4,575,391)**	**(1,936,120)**	**(6,713,800)**	**155,843,719**
Total % PET Shareholding	29.5%						29.5%

Options Issued as Part of Remuneration for the six months ended 31 December 2018

Managing Director, senior executives, other employees and consultants are provided by the Company's incentive plan which is designed to align the interest of management and shareholders and assist the Company in the attraction, motivation and retention of executives.

The incentive plan provides performance share options with a grant date of 16 June 2017, all subject to sales revenue performance criteria before 30 June 2019. 30 million performance options were granted to senior Chinese water executives who can assist PET business in China; 20 million performance options were granted to Phoslock Beijing executives; 15 million performance options were granted to PET employees and consultants who contribute to the Phoslock business exercisable by 20 December 2019.

The exercise price is 10.5 cents. All of these options are performance options and can only vest if performance criteria are met.

Under the plan, where a participant ceases employment prior to the vesting of their share options, the share options are forfeited unless cessation of employment is due to death.

All options granted are for ordinary shares in Phoslock Environmental Technologies Limited which confer a right of one ordinary share for every option held. The options hold no voting or dividend rights and are not transferable. Options that are not exercised by the designated expiry date automatically expire. Options will be forfeited when specified conditions attached to the options are not met.

A key factor in the Board's considerations is that the incentive plan should be both simple to understand and provide both a performance and retention element for participants. The Board considers that the sales revenue or the net profit before tax results are best aligned to these principles that is predicated on the maximization of shareholder value. The key terms and conditions related to the grants under this incentive plan are as follows; all options are to be settled by the physical delivery of shares.

Grant date	No. of instruments	Vesting conditions	Contractual life of options
Options granted to key management personnel			
- On 16 June 2017	28,000,000	- Group sales achieved $25 million or NPBT of $4 million for period from 10 April 2017 to 30 June 2019 - Remain employed beyond the vesting date	2.5 years
Options granted to employees			
- On 16 June 2017	1,100,000	Same as above	2.5 years
- On 17 July 2017	1,000,000	Same as above	2.5 years
- On 1 September 2017	200,000	Same as above	2.5 years
- On 10 October 2017	150,000	Same as above	2.5 years
Options granted to shareholders			
- On 16 June 2017	30,000,000	- Group sales achieved $25 million or NPBT of $4 million for period from 10 April 2017 to 30 June 2019	2.5 years
Options granted to consultants			
- On 16 June 2017	3,150,000	- Group sales achieved $25 million or NPBT of $4 million for period from 10 April 2017 to 30 June 2019	2.5 years
	500,000	- Remain employed beyond the vesting date	2.5 years
	250,000	- Consultant needs to purchase and pays US$3,000,000 for Phoslock products for same period as above	2.5 years
	250,000	- Consultant needs to purchase and pays US$3,000,000 for Phoslock products for same period as above	2.5 years
- On 6 November 2017	400,000	- Group sales achieved $25 million or NPBT of $4 million for period from 10 April 2017 to 30 June 2019 - Remain employed beyond the vesting date	2.5 years
Total share options	**65,000,000**		

The movement during the six months ended 31 December 2018 in the number of options over ordinary shares in Phoslock Environmental Technologies Limited held directly, indirectly or beneficially, by each key management personnel, including their related parties is as follows:

	Balance 01.07.2018	Options Acquired	Options Exercised	Options Sold After Vesting	Balance 31.12.2018	Total Vested 31.12.2018	Total Unvested 31.12.2018
Key Management Personnel	**No.**	**No.**	**No.**	**No.**	**No.**	**No.**	**No.**
Mr Laurence Freedman	-	-	-	-	-	-	-
Mr Robert Schuitema	3,000,000	-	-	-	3,000,000	-	-
Mr Zhigang Zhang	30,000,000	-	(20,000,000)	(10,000,000)	-	-	-
Mrs Brenda Shanahan	-	-	-	-	-	-	-
Mr Ningping Ma	-	3,000,000	(3,000,000)	-	-	-	-
Mr Nigel Traill	2,000,000	-	-	-	2,000,000	2,000,000	-
Mr Andrew Winks	2,000,000	-	-	-	2,000,000	2,000,000	-
Mr Chris Hui	1,000,000	-	-	-	1,000,000	1,000,000	-
Mr Tingshan Liu	20,000,000	3,500,000	(3,500,000)	(1,500,000)	18,500,000	18,500,000	-
Mr Zhaopeng (Jason) Hai	1,000,000	-	-	-	1,000,000	1,000,000	-
Total	**59,000,000**	**6,500 000**	**(26,500,000)**	**(11,500,000)**	**27,500,000**	**27,500,000**	**-**

The movement during the period in the number of options over ordinary shares in Phoslock Environmental Technologies Limited issue to employees and consultants is as follows:

	6 months ended 31 December 2018		12 months ended 30 June 2018	
	Number of Options	Average Exercise Price	Number of Options	Average Exercise Price
Outstanding at the beginning of the period	35,000,000	$0.105	53,600,000	$0.097
Options issued during the period	-	-	-	-
Vesting conditions not met	-	-	-	-
Vested options exercised	(1,500,000)	$0.105	(18,600,000)	$0.082
Outstanding at period end	**33,500,000**	**$0.105**	**35,000,000**	**$0.105**
Exercisable at period end	**33,500,000**	**$0.105**	**-**	**-**

The 33,500,000 options were outstanding at 31 December 2018 had a weighted average exercise price of $0.105 and a weighted average expected life of 1 year. The average exercise price for the options outstanding at 30 June 2018 was $0.105.

Options do not entitle the holder to participate in any share issue of the Company, nor do they carry any voting rights or rights to dividends.

For options to convert into ordinary shares, the vesting terms of the option must be met, then the option holder must pay the option price to the Company. Once this has been done, one option will convert into one fully paid ordinary share.

Other Transactions with Key Management Personnel and/or their Related Parties

Transactions with Key Management Personnel and/or Related Parties are detailed in Note 26. These transactions were conducted on terms no more favourable than those reasonably expected under arm's length dealings with unrelated parties.

Employment Contracts of Directors and Senior Executives

The employment conditions of the Managing Director and executives are formalised in contracts of employment or letters of appointment.

Employment contracts for senior executives stipulate a range of one to three-month resignation periods (six months for the Managing Director). The Company may terminate a contract of employment without cause by providing written notice or making payment in lieu of notice for a period equivalent to the resignation period (twelve months for the Managing Director). Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct, the Company can terminate employment at any time. Directors and Key Management Personnel (and their related parties) hold 155,843,719 (30 June 2018: 142,748,529) and 28,950,000 options outstanding as at 31 December 2018 (30 June 2018: 58,480,000).

There were no termination payments during the year (FY2018: Nil).
This concludes the audited remuneration report.

Meetings of Directors

During the six months ended 31 December 2018, 9 meetings of directors (including committees of directors) were held. Attendances by each director during the year were:

	Directors' Meeting		Committee Meeting			
			Audit & Compliance		Remuneration	
	Number Eligible to attend	Number Attended	Number Eligible to attend	Number Attended	Number Eligible to attend	Number Attended
Mr Laurence Freedman	7	7	1	-	1	1
Mr Robert Schuitema	7	7	1	1	-	-
Mr Zhigang Zhang	7	7	-	-	1	-
Mrs Brenda Shanahan	7	7	1	1	1	1
Mr Ningping Ma	1	1	-	-	-	-

Information on Directors

Mr Laurence Freedman AM	Chairman (Non-Executive)
Qualifications	CPA, MAusIMM
Experience	Board member since 20 October 2010. Mr Freedman has a long history and involvement with listed and private companies around the world. He founded the EquitiLink Investment Management Group, building it into a global investment management corporation, which he sold in 2000. He has held Chairman and Director roles in many international companies in industries as diverse as investment management, media, resources, health and environment. He currently manages private investments in shares, property and fixed interest investments. Mr Freedman is Chairman of the Freedman Foundation, a philanthropic enterprise, involved in scientific and medical research, the arts and underprivileged youth programs in Australia.
Interest in Shares & Options	88,214,250 Ordinary Shares in Phoslock Environmental Technologies Limited, predominantly via his related company, Link Traders (Aust) Pty Ltd.
Special Responsibilities	Mr Freedman is a Member of the Remuneration and Nomination Committees.
Mr Zhigang Zhang	**Deputy Chairman (Non-Executive)**
Experience	Board member since June 2017. Mr Zhang is a senior executive of a subsidiary of Beijing Enterprises Water Group (HK Listed 371), the largest water group in China. Mr Zhang has worked in the water remediation and water treatment industry in China and overseas for over 30 years.
Interest in Shares & Options	36,666,667 Ordinary Shares in Phoslock Environmental Technologies Ltd held directly.
Special Responsibilities	Mr Zhang is a Member of the Remuneration and Nomination Committees.
Mr Robert Schuitema	**Managing Director (Executive)**
Qualifications	Chartered Accountant, BCA, INFINZ
Experience	Board member since April 2005. Former Managing Director of investment bank Chase Manhattan and later JP Morgan Chase responsible for the bank's mining, metals and project finance business in Australia and the Asia Pacific region. Mr Schuitema was previously a Director of ASX listed companies KalNorth Gold Mines Ltd, Electo Optical Systems Ltd and Inca Copper & Gold Ltd.
Interest in Shares & Options	11,042,472 Ordinary Shares in Phoslock Environmental Technologies Limited via his related company, Sail Ahead Pty Ltd and related party family members. 3,000,000 Options over Phoslock Environmental Technologies Limited shares.
Special Responsibilities	Mr Schuitema is a Member of the Nomination, Audit and Compliance Committee.
Mrs Brenda Shanahan	**Director (Non-Executive)**
Qualifications	B. Comm, Fellow of AICD
Experience	Board member since September, 2017. Mrs Shanahan has a research background in finance in Australian and overseas economies and share markets. Previously she held executive positions included Managing Director of W M Mercer Investment Consulting for Australia and Asia and a member of their international board. Mrs Shanahan is currently a Non-Executive Director of ASX listed and Clinuvel Pharmaceuticals Ltd., DMP Asset Management Ltd, St Vincent's Medical Research Institute in Melbourne Foundation and the Chair of the Aitkenhead Centre of Medical Discovery. Mrs Shanahan is a former Director of EquitiLink Limited and former Non-Executive Director of ASX listed company, Challenger Financial Services, and Challenger Limited and Director of Bell Financial Group Ltd. Recently, Mrs Shanahan was bestowed with an honorary Doctorate from Swinburne University of Technology and was also appointed to the Australian Advisory Board on Technology and Healthcare Competitiveness (a partnership with United States Council on Competitiveness).
Interest in Shares & Options	1,300,000 Ordinary Shares in Phoslock Environmental Technologies Limited held directly and indirectly.
Special Responsibilities	Mrs Shanahan is Chairperson of the Remuneration and Audit and Compliance Committees, and a Member of the Nomination Committee.
Mr Ningping Ma	**Director (Non-Executive)**
Experience	Board member since December 2018. Mr Ma is a senior executive of a subsidiary of Beijing Enterprises Water Group (HK Listed 371), the largest water group in China. Mr Ma has more than 25 years experience in the water remediation and water treatment industry.
Interest in Shares & Options	5,312,000 Ordinary Shares in Phoslock Environmental Technologies Ltd held directly.
Special Responsibilities	Mr Ma is a Member of the Remuneration and Nomination Committees.

Indemnifying Officers or Auditor

During or since the end of the financial year the Company has given an indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

During the six months period, the Company has paid premiums totalling $17,909 (FY2018 (12 months): $43,659) to insure all directors and executives against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director or officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

Neither indemnities nor agreements to indemnify exist in relation to the Company's auditor.

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceeding. The Company was not a party to any such proceedings during the year.

Non-Audit Services

For the six months ended 31 December 2018, the Company auditor, KPMG, has performed certain other services in addition to its statutory duties. The Directors are satisfied that:

(a) The non-audit services provided that during the six months ended 31 December 2018 by KPMG as the external auditor were compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

(b) Any non-audit services provided during the six months ended 31 December 2018 by KPMG as the external auditor did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- KPMG services have not involved partners of staff acting in a managerial or decision-making capacity with the Group or being involved in the processing or originating of transactions.
- KPMG non-audit services have only been provided where the Group satisfied that the related function or process will not have a material bearing on the audit procedures.
- KPMG partners and staff involved in the provision of non-audit services have not participated in associated approval or authorisation processes.
- A description of all non-audit services undertaken by KPMG and the related fees has been reported to the Board to ensure complete transparency in relation to the services provided.
- A declaration required by section 307C of the *Corporations Act 2001* confirming independence has been received from KPMG.

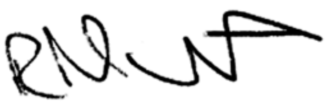
Details of the amounts paid to KPMG for audit and non-audit services provided during the period are set out in Note 7 to the Financial Statements.

Application to Lake Pampulha, Brazil

Auditor's Independence Declaration

The lead auditor's independence declaration in accordance with Section 307C of the *Corporations Act 2001*, for the six months ended 31 December 2018 has been received and can be found on page 23 of the Financial Report.

Signed in accordance with a resolution of the Board of Directors of Phoslock Environmental Technologies Limited.



Mr Robert Schuitema

Managing Director

Dated at Sydney, 27th February 2019

Mrs Brenda Shanahan

Non-Executive Director - Chairman of Audit Committee

Dated at Sydney, 27th February 2019

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Phoslock Environmental Technologies Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Phoslock Environmental Technologies Limited for the financial period ended 31 December 2018 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Sarah Cain

Sarah Cain

Partner

Melbourne

27 February 2019

Corporate Governance

The Board of Directors of Phoslock Environmental Technologies Limited is responsible for the corporate governance of the Consolidated Entity. The Board guides and monitors the business and affairs of Phoslock Environmental Technologies Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

The following formalises the main corporate governance practices established and in force throughout the financial year to ensure the Board is well equipped to discharge its responsibilities.

Composition of the Board

The composition of the Board shall be determined in accordance with the following principles and guidelines:

- The Board should consist of at least 4 Directors, increasing where additional expertise in considered desirable in certain areas.
- The majority of the Board members should be Independent Non-Executive Directors.
- The Chairman of the Board should be an Independent Non-Executive Director.
- Directors should bring characteristics which allow a mix of qualifications, skills and experience both nationally and internationally.
- All available information in connection with items to be discussed at a meeting of the Board shall be provided to each Director prior to that meeting.

The current Chairman of the Board, Mr Laurence Freedman, is a Non-Executive Director and not involved in any day to day decision making of the Company.

Mr Freedman is Phoslock Environmental Technologies Limited largest shareholder. Mr Freedman's direct and indirect shareholding in the Company totals 88.2 million shares which is equivalent to 16.3% of the Company's issued capital.

The Board will review its composition on an annual basis to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, for whatever reason, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board will select appropriate candidates with relevant qualifications, skills and experience. External advisers may be used to assist in such a process. The Board will then appoint the most suitable candidate, who must stand for election at the next general meeting of shareholders.

The primary responsibilities of the Board include:

- The establishment of the long term goals of the Company and strategic plans to achieve those goals;
- The review and adoption of annual budgets for the financial performance of the Company and monitoring those results on quarterly basis. This includes the establishment and monitoring of key performance indicators (both financial and non-financial) for all significant business processes;
- Ensuring the Consolidated Entity has implemented adequate systems of internal control together with appropriate monitoring of compliance activities; and
- The approval of the annual and half-year financial reports.

The terms and conditions of the appointment and retirement of Directors will be set out in a letter of appointment which covers remuneration, expectations, terms, the procedures for dealing with conflicts of interest and the availability of independent professional advice.

The performance of all Directors will be reviewed by the Chairman each year.

Independent professional advice

Each Director will have the right to seek independent professional advice at the Company's expense. The prior approval of the Chairman will be required, which will not be unreasonably withheld.

Remuneration

The Board will review the remuneration packages and policies applicable to the Directors and Senior Executives on an annual basis. Remuneration levels will be competitively set to attract the most qualified and experienced Directors and Senior Executives.

Where necessary the Board will obtain independent advice on the appropriateness of remuneration packages.

Audit committee

The Board shall maintain an Audit Committee of at least two Directors. Audit Committee meetings may also be attended, by invitation, by the external auditors. The role of the Committee will be to provide a direct link between the Board and the external auditors.

It will also give the Board additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining the matters for inclusion in the financial statements.

The responsibilities of the Audit Committee include:

- Monitoring compliance with regulatory requirements;
- Improving the quality of the accounting function;
- Reviewing external audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified appropriate and prompt remedial action is taken by management; and
- Liaising with the external auditors and ensuring that the annual audit and half-year review are conducted in an effective manner.

The Audit Committee will review the performance of the external auditors on an annual basis. Nomination of auditors will be at the discretion of the Audit Committee.

Business risk

The Board will mentor and receive advice on areas of operational and financial risk, and consider strategies for appropriate risk management arrangements.

Specific area of risk identified initially and regularly considered at Board Meetings include risks associated with business and investment, new and rapidly evolving markets, technological change, competition and business and strategic alliances, the environment and continuous disclosure obligations.

Ethical standards

The Board's policy is for the Directors and Senior Management to conduct themselves with the highest ethical Standards. All Directors and employees will be expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the Consolidated Entity.

Trading in Phoslock Environmental Technologies Limited Securities

The Board's policy with regard to trading in the Company's securities is that prior to any transaction, Directors and officers must obtain clearance from the Chairman or Managing Director to ensure that no transactions are made where the Director or officer is in possession of price sensitive information.

Authority limits

The Board shall annually review the level of authority limits for the Managing Director and Senior Management. That review shall coincide with the approval of the annual budgets.

Confidentiality

The Board members are required to ensure that all Company business is kept confidential by each Director and staff in their control.

Dealing with conflicts of interest

A potential conflict of interest may arise from time to time.

If a conflict or potential conflict of interest arises, full disclosure should be made to the Board as soon as the Director becomes aware of the conflict or potential conflict. The Board shall manage the conflict in such a way that the interests of the Company as a whole are safeguarded.

A conflict will arise:

- When the private or other business Interests of Directors and officers conflict directly or indirectly with their obligations to the Company; and
- When benefits (including gifts and entertainment) are received from a person doing business which could be seen by others as creating an obligation to someone other than the Company.

Directors and officers shall not act in a way which may cause others to question their loyalty to the Company.

ASX Principle | Company Status & Reference/Comment

Principle 1: Lay solid foundations for management and oversight

The listed entity should disclose:

1.1(a)	Roles & Responsibilities of Board and Management	A	Roles & responsibilities of Board and Management are defined; Board reviewing and updating these
1.1(b)	Matters reserved for the Board and those delegated to management	A	Matters reserved for Board and Management are defined; Board reviewing and updating these
1.2(a)	Appropriate checks before appointing or nominating a new Director	A	Nomination committee responsible for ensuring this occurs
1.2(b)	Provide shareholders with material information for reappointment or election of new Director	A	Nomination committee responsible for ensuring this occurs
1.3	Written agreement with each Director and Senior Executive	A	Written agreements in place; Board to review all existing agreements annually
1.4	Company Secretary accountable to Board, via Chair	A	Company Secretary reports to Board via Chair. Current Company Secretary is a Director, with protocol observed
1.5	Company should have a Diversity Policy	A	The Company has approx. 80 employees ranging from low skilled factory workers to technical specialists with PhD's. The Company operates in 20 countries and requires fluent speakers of a number of languages. The Company's policy is to employ the person most suited to the job requirements along with applicable language skills for the country or countries that they are working in.
1.6(a)	Board should have policy of evaluating Board, its Directors and Committees	A	Board undertook a review this year which resulted in the addition of an additional Director
1.6(b)	Company should disclose whether a performance evaluation has been undertaken during the reporting period	A	Company will report on the performance evaluation each year
1.7(a)	Periodic evaluation of senior executives	A	Company undertakes annual reviews evaluating each senior executive
1.7(b)	Company should disclose whether a performance evaluation has been undertaken during the reporting period	A	Company Company undertook performance evaluation of all senior executives in September, 2018

Principle 2: Structure the Board to add Value

2.1	Company should have a Nomination Committee	A	Company has a Nomination Committee currently comprising all Directors Nomination Committee Charter on Company website
2.2	Company should disclose skills of each Director	A	The skills and experience of each Director is set out in the Company's Annual Report and on the company's website.
2.3(a)	Company should disclose which Directors are considered to be independent	A	Company details which Director is independent
2.3(b)	Company should detail reasons why a Director is independent	A	Company has detailed on page 24 reasons why the Chairman is considered independent
2.3(c)	Company should detail the length of service of each Director	A	The length of service of each Director is set out in the company's Annual Report and on the Company's website.
2.4	A majority of Directors should be independent	A	Three of the four Directors are independent Non-Executive Directors
2.5(a)	The Chairman of the Board should be an independent Director	A	The Company has an independent Chairman
2.5(b)	The position of Chairman and CEO/MD should not be held by the same person	A	The positions of Chairman and CEO/MD are not held by the same person
2.6 (a)	Company should provide an induction program for new Directors	A	Company provides an induction program for new Directors
2.6 (b)	Directors should be given opportunity to develop skills and knowledge for role as Director	A	Company will discuss with Chairman and Directors if development support is required

Principle 3: Act Ethically and Responsibly

3.1(a)	Company should have a Code of Conduct for its Directors, executives and employees	A	Company has an Ethics Charter which is published on the company's website
3.1(b)	Company should disclose the Code of Conduct	A	The Ethics Charter is published on the company's website

Principle 4: Safeguard Integrity in Corporate Reporting

4.1(a)	Company should have an Audit Committee	A	Company has an Audit & Compliance Committee
4.1(a)(1)	Audit Committee should comprise al least three Directors, majority of whom are independent	A	Audit & Compliance Committee currently has two Directors, and one is Non-Executive Director. The Board will keep on evaluating the appropriateness of the composition of the Committee
4.1(a)(2)	Audit Committee should be chaired by an independent Director	A	Audit & Compliance Committee is chaired by an independent Director
4.1(a)(3)	Audit Committee should have a charter which is published	A	Audit & Compliance charter will be published this financial year
4.1(a)(4)	Relevant experience of each member of Audit Committee disclosed	A	The experience of each member of the Audit & Compliance Committee is set out in the Company's Annual Report and on the company's website
4.1(a)(5)	Report the number of meetings of the Audit Committee and those who attended	A	The number of meetings and attendance of Directors at the Audit & Compliance Committee meetings is set out in the Company's Annual Report
4.2	Board should receive a Declaration from CEO/MD and CFO that financial statements have been prepared properly and company has appropriate controls in place	A	CEO/MD and CFO provide a signed declaration that financial statements have been prepared properly and Company has appropriate controls in place
4.3	Company should ensure that external auditors attend AGM and available to answer questions	A	External auditors attend Company's AGM and are available to answer questions

ASX Principle			Company Status & Reference/Comment

Principle 5: Make Timely and Balanced Disclosure

5.1(a)	Company should have a written policy for complying with the ASX Listing Rules Continuous Disclosure	A	Company is fully aware of its obligations with the ASX Listing Rules Continuous Disclosure
5.1(b)	Company to disclose the policy	A	Company is fully aware of its obligations with the ASX Listing Rules Continuous Disclosure

Principle 6: Respect the Right of Security Holders

6.1	Company should provide information about itself and its governance to investors via its website	A	Company's website provides significant information on the company including detailing its governance disclosures
6.2	Company should implement an investor relations program to facilitate two way communication with investors	A	Given the size of the company, it uses ASX releases and its website to communicate with investors material information. A consultant has been engaged to assist with investor communication
6.3	Company should disclose policies and processes to encourage participation at meetings of security holders	A	All security holders are sent information on Notice of Meetings well in advance of the meetings; at the meetings security holders are given ample opportunity to raise issues or ask questions
6.4	Security holders should be given the option to receive communication and send communication electronically	A	Company is working with its Share Registrar to get email addresses of all its shareholders to enable documents to be sent electronically

Principle 7: Recognise and Manage Risk

7.1	Company should have a Risk Management Committee	A	Company has an Audit & Compliance committee which covers Risk Management
7.2(a)	Board undertakes an annual review of Risk Management	A	Risk Management issues are discussed at each Director's meeting
7.2(b)	Board should disclose whether a Risk Management review took place	A	Company will report Risk Management review in Director's Report to security holders
7.3(a)	Company should disclose if it has an internal audit function	A	Company does not have an internal audit function. Role of external auditors is very extensive
7.3(b)	If no internal audit function, what is company doing to monitor risk management	A	Company has internal controls to manage risk issues.
7.4	Company should disclose if it has any material exposure to economic, environmental and social sustainability risks	A	Company discloses major risks in Director's Report in Annual Report

Principle 8: Remunerate Fairly and Responsibly

8.1(a)	Company should have a Remuneration Committee	A	Company has a Remuneration Committee
8.1(a)(1)	Remuneration Committee should comprise at least three Directors, majority of whom are independent	A	Remuneration Committee comprises four Directors, all of whom are independent
8.1(a)(2)	Remuneration Committee should be chaired by an independent Director	A	Remuneration Committee is chaired by an independent Director
8.1(a)(3)	Remuneration Committee should have a charter which is published	A	Remuneration Committee charter is set out in the Company's website
8.1(a)(4)	Relevant experience of each member of Remuneration Committee disclosed	A	The experience of each member of the Remuneration Committee is set out in the company's Annual Report and on the Company's website
8.1(a)(5)	Report the number of meetings of the Remuneration Committee and those who attended	A	The number of meetings and attendance of Directors at the Remuneration Committee meetings is set out in the Company's Annual Report
8.2	Company should disclose remuneration policies	A	These are detailed in the Director's Report in the Annual Report
8.3	If Company's have an equity based remuneration scheme can participants limit risk through use of derivatives or other instruments	A	There is currently no derivatives market for PET equities

Consolidated Statement of Profit or Loss and Other Comprehensive Income For the Period Ended 31 December 2018

		6 months ended 31 December 2018	12 months ended 30 June 2018
	Note		$
Sales revenue	2	8,985,878	15,707,100
Cost of sales		(4,052,922)	(7,787,362)
Gross profit		**4,932,956**	**7,919,738**
Other income	2	336,812	547,399
Distribution expenses		(77,173)	(92,681)
Marketing expenses		(218,271)	(327,200)
Occupancy expenses	3	(172,383)	(312,817)
Director, listing & professional fees		(1,036,589)	(1,207,480)
Administrative expenses		(2,165,170)	(3,674,211)
Operating profit		**1,600,182**	**2,852,748**
Finance costs	3	-	(82,634)
Exchange gains/(losses)		38,602	(40,569)
Options expenses	25	(1,781,824)	(1,815,966)
(Loss)/Profit before income tax		**(143,040)**	**913,579**
Income tax expense	4	(525,800)	(805,553)
(Loss)/profit for the period		**(668,840)**	**108,026**
Other comprehensive income			
Exchange difference arising on translation of foreign controlled entities		236,285	449,562
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		**(432,555)**	**557,588**
(Loss)/profit for the period attributable to:			
- Owners of parent entity		(668,840)	1,304
- Non-controlling interest		-	106,722
Total (loss)/profit for the period		**(668,840)**	**108,026**
Total comprehensive (loss)/income for the period attributable to:			
- Owners of parent entity		(432,555)	450,866
- Non-controlling interest		-	106,722
Total comprehensive (loss)/income for the period		**(432,555)**	**557,588**
Earnings per share			
Basic earnings per share (cents per share)	8	(0.14)	0.00
Diluted earnings per share (cents per share)	8	(0.13)	0.00

The accompanying notes form part of these consolidated financial statements

Consolidated Statement of Financial Position
As at 31 December 2018

		As at 31 December 2018	As at 30 June 2018
	Note	$	$
ASSETS			
Current Assets			
Cash & cash equivalents	9	4,878,095	4,324,053
Trade & other receivables	10	17,762,206	11,491,617
Inventories	11	2,408,321	1,772,897
Other assets	15	448,403	557,822
Total Current Assets		**25,497,025**	**18,146,389**
Non-Current Assets			
Financial assets	9(a)	25,575	25,000
Property, plant & equipment	13	1,465,992	1,474,023
Intangible assets	14	136,410	77,501
Deferred tax assets	16	358,314	702,420
Total Non-Current Assets		**1,986,291**	**2,278,944**
TOTAL ASSETS		**27,483,316**	**20,425,333**
Current Liabilities			
Trade & other payables	17	2,114,567	4,504,009
Financial liabilities	18	-	310,022
Other liabilities	5	71,815	-
Short term provisions	19	388,160	363,752
Tax payable		871,192	1,148,646
TOTAL CURRENT LIABILITIES		**3,445,734**	**6,326,429**
NON-CURRENT LIABILITIES			
Other liabilities	5	40,841	37,800
Long-term provisions	19	-	4,210
TOTAL NON-CURRENT LIABILITIES		**40,841**	**42,010**
TOTAL LIABILITIES		**3,486,575**	**6,368,439**
NET ASSETS		**23,996,741**	**14,056,894**
EQUITY			
Issued capital	20	59,900,892	51,298,783
Reserves	21	6,006,311	3,988,202
Accumulated loss		(41,910,462)	(41,137,177)
Parent interest		**23,996,741**	**14,149,808**
Non-controlling interest		-	(92,914)
TOTAL EQUITY		**23,996,741**	**14,056,894**

The accompanying notes form part of these consolidated financial statements

Consolidated Statement of Changes in Equity For the Period Ended 31 December 2018

	Issued capital	Option Reserves	Foreign currency translation reserves	Accumulated losses	Total attributable to owners of the Company	Non-controlling interest	Total Equity
	$	$	$	$	$	$	$
30 June 2018							
Balance at 1 July 2017	**41,551,112**	**1,848,597**	**122,082**	**(41.386.486)**	**2.135.305**	**(199,636)**	**1,935,669**
Total comprehensive income							
Gain for the year	-	-	-	1,304	1,304	106,722	108,026
Other comprehensive income	-	-	449,562	-	449,562	-	449,562
Total comprehensive income for the year	-	-	**449,562**	**1,304**	**450,866**	**106,722**	**557,588**
Transaction with owners in the capacity as owners							
Shares issued during the year	7,975,171	-	-	-	7,975,171	-	7,975,171
Options exercised during the year	1,772,500	-	-	-	1,772,500	-	1,772,500
Options expenses during the year	-	1,815,966	-	-	1,815,966	-	1,815,966
Transfer option reserves to accumulated losses	-	(248,005)	-	248,005	-	-	-
Total transactions with owners in their capacity as owners	**9,747,671**	**1,567,961**	**-**	**248,005**	**11,563,637**	**-**	**11,563,637**
Balance at 30 June 2018	**51,298,783**	**3,416,558**	**571,644**	**(41,137,177)**	**14,149,808**	**(92,914)**	**14,056,894**
31 December 2018							
Balance at 1 July 2018	**51,298,783**	**3,416,558**	**571,644**	**(41.137,177)**	**14,149,808**	**(92,914)**	**14,056,894**
Total comprehensive income							
Loss for the period	-	-	-	(668,840)	(668,840)	-	(668,840)
Other comprehensive income	-	-	236,285	-	236,285	-	236,285
Total comprehensive (loss)/income for the period	-	-	**236,285**	**(668,840)**	**(432,555)**	-	**(432,555)**
Transaction with owners in the capacity as owners							
Shares issued during the period	5,311,529	-	-	-	5,311,529	-	5,311,529
Options exercised during the period	3,290,580	-	-	-	3,290,580	-	3,290,580
Options expenses during the period	-	1,781,824	-	-	1,781,824	-	1,781,824
Transfer option reserves to accumulated losses	-	-	-	(104,445)	(104,445)	92,914	(11,531)
Total transactions with owners in their capacity as owners	**8,602,109**	**1,781,824**	**-**	**(104,445)**	**10,279,488**	**92,914**	**10,372,402**
Balance at 31 December 2018	**59,900,892**	**5,198,382**	**807,929**	**(41,910,462)**	**23,996,741**	**-**	**23,996,741**

The accompanying notes form part of these consolidated financial statements

Phoslock Environmental Technologies

Consolidated Statement of Cash Flows For the Period Ended 31 December 2018

	Note	6 months ended 31 December 2018	12 months ended 30 June 2018
	Note	$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		3,951,869	6,825,575
Receipts from research & development grant		484,360	361,980
Payments to suppliers & employees		(11,553,890)	(11,389,771)
Interest received		8,130	18,036
Finance costs		-	(82,634)
Tax paid		(459,149)	(359,327)
NET CASH USED IN OPERATING ACTIVITIES		**(7,568,680)**	**(4,626,141)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant & equipment		(112,655)	(585,094)
Purchase of intangible assets		(59,871)	(77,977)
Acquisition of non-controlling interest	30	(11,531)	-
NET OF CASH USED IN INVESTING ACTIVITIES		**(184,057)**	**(663,071)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		5,536,001	8,160,109
Proceeds from exercise of share options		3,307,500	1,772,500
Payment of transaction cost – equity raising		(241,392)	(184,938)
Repayment of borrowings		(310,022)	(1,500,000)
NET CASH FLOW FROM FINANCING ACTIVITIES		**8,292,087**	**8,247,671**
Net increase/(decrease) in cash & cash equivalents held		539,350	2,958,459
Cash & cash equivalents at the beginning of the period		4,324,053	1,234,243
Translation difference		14,692	131,351
CASH & CASH EQUIVALENTS AT THE END OF THE PERIOD	9	**4,878,095**	**4,324,053**

The accompanying notes form part of these consolidated financial statements

Notes to the Consolidated Financial Statements For the Period Ended 31 December 2018

Corporate Information

Phoslock Environmental Technologies Limited (the "Company") is a public company listed on the Australian Securities Exchange (trading under the code "PET") and is incorporated and domiciled in Australia.

The address of the Group's registered office and principal place of business is Suite 403, 25 Lime Street, Sydney, New South Wales 2000, Australia. These consolidated financial statements comprise the Company and its Controlled Entities (together referred to as the "Group").

The Group is a for-profit entity and is primarily involved in the selling and marketing of the patented product "Phoslock" and undertake end-to-end design, engineering, project site works, application and maintenance of water remediation in rivers, canals, wetlands and lakes.

Separate financial statements for the Company as an individual entity are not presented, however, limited financial information for the Company as an individual entity is included in Note 12.

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

Statement of Compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs), Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards. The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board.

The financial statements were authorised for issue by the Board of Directors on 27th February 2019.

Basis of Measurement

The consolidated financial statements are based on historical costs. The consolidated financial statements have been prepared on an accruals basis and are based on historical costs, modified where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Functional and Presentation Currency

These consolidated financial statements are presented in Australian dollars which is the Company's functional currency.

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that Instrument, amounts in the consolidated financial statements and directors' report have been rounded off to the nearest dollar, unless otherwise stated.

Change in Accounting Period

PET changed its financial year end from 30 June to 31 December. During the transition, the financial year 2018 was a twelve-month period from 1 July 2017 to 30 June 2018. The current financial accounts for 31 December 2018 are for a six-month period. Accordingly, the comparative figures for the consolidated statement of profit or loss and other comprehensive income, consolidated statements of changes in equity, consolidated cash flow statements and the related notes would not be comparable.

Changes in Significant Accounting Policies

(a) Adoption of New Standard and Amendments to Standards

The Group has initially applied AASB 15 (see Note 1 (d)) and AASB 9 (see note 1 (k)) from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

This is the first set of the Group's financial accounts in which AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* have been applied. The adoption of these new standards and amendments to standards has not had any significant effect on the results and financial position of the Group.

Standards, Amendments to Standards and Interpretations which are not yet effective

Accounting Standards and Interpretations issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

AASB 16: *Leases*
AASB 16 replaces the current accounting requirements applicable to leases in AASB 117: *Leases* and related interpretations. The standard addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from AASB 16 is that most operating leases will be accounted for on the statements of financial position for lessees. The Group is a lessee of certain premises which are currently classified as operating leases. AASB 16 provides a new provision for the accounting treatment of leases when the Group is the lessee, almost all leases should be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Short-term leases of less than twelve months and leases of low-value assets are exempt from the recognition obligation.

The new standard will therefore result in an increase in assets and financial liabilities in the consolidated statements of financial position. As for the financial performance impact in the consolidated statements of comprehensive income, straight-line depreciation expense on the right-of-use asset and the interest expenses on the lease liability are recognised and no rental expenses will be recognised. The combination of a straight-line depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to consolidated income statements in the initial years of the lease and decreasing expenses during the latter part of the lease term.

The Group currently has operating leases over office premises in Sydney, Australia and in Beijing, China and a manufacturing plant in Changxing, China.

The Group conducted preliminary assessment and estimated that the adoption of AASB 16 would result in recognition of lease assets and lease liabilities primarily arising from the leases of premises in Australia and China. The Group has already commenced an assessment of the impact of other new standards, amendments to standards and interpretations, certain of which may be relevant to the Group's operations and may give rise to changes in accounting policies, changes in disclosures and remeasurement of certain items in the consolidated financial statements.

(b) Principles of Consolidation
The consolidated financial statements incorporate all of the assets, liabilities and results of the Company and its subsidiaries (collectively referred to as the "Group") for the period ended 31 December 2018. A subsidiary is an entity, directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between Group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as "non-controlling interests". The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary's net assets on liquidation at either fair value or at the non-controlling interests' proportionate share of the subsidiary's net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of profit or loss and other comprehensive income. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Profit or loss and each component of other comprehensive income are attributed to the shareholders of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Appropriate adjustments have been made to a controlled entity's financial position, performance and cash flows where the accounting policies used by that entity were different from those adopted by the consolidated entity.

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

A list of controlled entities is contained in Note 12(b) of the financial statements.

(c) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are generally recognised in the statement of comprehensive income. Foreign currency monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rate. Non-monetary assets and liabilities measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary assets and liabilities measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary assets and liabilities are recognised in statement of comprehensive income, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income; otherwise the exchange difference is recognised in profit or loss.

Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each consolidated statement of financial position presented are translated at the exchange rate ruling at the date of that consolidated statement of financial position;

(ii) income and expenses for each consolidated income statement are translated at the average exchange rate during the period covered by the consolidated income statement;

(iii) all resulting exchange differences are recognised as a separate component of equity; and

(iv) on the disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to profit or loss.

(d) Revenue and Other Income

Policy applicable for 1 July 2017 to 30 June 2018

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services rendered in the ordinary course of the Group's activities. Revenue is shown net of goods and services tax (GST) / value-added tax (VAT), returns, rebates and discounts, allowances for credit and other revenue reducing factors after eliminating sales within the Group. All revenue is stated net of the amount of goods and services tax (GST). Revenue is recognised when the amount can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria for each of the activities have been met. Estimates are based on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

Policy applicable for 1 July 2018 to 31 December 2018

AASB 15: *Revenue from Contracts with Customers*

AASB 15 *Revenue from Contracts with Customers* also became effective for periods beginning on 1 January 2018, with no material impact to the Group.

AASB 15 establishes a comprehensive framework for determining the timing and quantum of revenue recognised. It replaces existing guidance, including AASB 118 *Revenue* and AASB 111 *Construction Contracts* and related interpretations. The core principle of AASB 15 is that an entity shall recognise revenue when control of a good or service transfers to a customer.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations; and
- recognise revenue when the performance obligations are satisfied.

The Group has adopted AASB 15 using the cumulative effect method with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 July 2018). Accordingly, the information presented for FY2018 has not been restated – i.e. it is presented, as previously report, under AASB 111, AASB 118 and related interpretations.

Under AASB 15 revenue is recognised when contract modifications are enforceable and to the extent that it is highly probable that a significant reversal of revenue will not occur. In making the assessment, the Group considers a number of factors including the nature of the claim, returns and refund policies and the historical transactions to determine whether the "enforceable" and "highly probable" threshold has been met. As a result of the assessment, the adoption of the new standard has no significant impacts to the results of the Group.

Type of product/service	Nature and timing of satisfaction of performance, obligations, including significant payment terms	Revenue recognition under AASB 15 (applicable from 1 January 2018)	Revenue recognition under AASB 118 (applicable before 1 January 2018)
Sales of Phoslock	Customers obtain control of Phoslock products when the goods are despatched from the Group's warehouse or loaded on the shipping vessels depending on the shipping terms. Invoices are generated and revenue is recognised at that point in time. Invoices are usually payable within 30 days.	No change	Revenue is recognised when the goods are despatched from the Group's warehouse or loaded on the shipping vessels depending on the shipping terms.
Services fee	Customers obtain benefits from the service provided by Phoslock in the design, engineering and project implementation. Revenue is recognised over time when services are rendered.	No change	Revenue is recognised when the services are rendered.
Interest revenue	Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets is the rate inherent in the instrument.	No change	Interest revenue is recognised when it is earned, and collectability is reasonably assured.
Research & Development Grants	Research and development grants are recognised at fair value where there is reasonable assurance that the grant will be received, and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs it is compensating.	No change	R&D grants are recognised at fair value where there is reasonable assurance that the grant will be received, and all grant conditions will be met.

(e) Income Tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the consolidated statement of profit and loss and other comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset and liability in a transaction other than a business combination that at the time of transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Investment allowances and similar tax incentives

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure (e.g. the Research and Development Tax Incentive regime in Australia or other investment allowances). The Group accounts for such allowances as other receivables/other income.

(f) Impairment of Assets

At each reporting date, the consolidated group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs of disposal and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of profit or loss and other comprehensive income.

(g) Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in non-current assets. The finance costs of such leases are charged to the consolidated income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Payments made under operating leases (net of any incentives received from the lessor), are charged to the consolidated income statement on a straight-line basis over the period of the lease.

(h) Inventories

Inventories are all purchased finished goods and are measured at the lower of cost and net realisable value. Costs of purchased inventory comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition, net of rebates and discounts. Costs are assigned on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(i) Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of assets. Subsequent costs are included in the carrying amount of the assets or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged in the consolidated income statement during the financial period in which they are incurred. The carrying amount of an asset is written down immediately to its recoverable amount if the carrying value of an asset is greater than its estimated recoverable amount.

The fixed assets for the Group mainly included machinery equipment and leasehold improvement in Changxing factory for the production of Phoslock.

Depreciation

Deprecation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its estimated residual value over its estimated useful life. The estimated useful lives of different categories of property, plant and equipment are as follows:

Plant and Equipment	10 years
Leasehold Improvement	3 to 5 years
Motor Vehicles	3 years

The residual values and useful lives of the assets are reviewed, and adjusted if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is determined by comparing the difference between the net sales proceeds and the carrying amount of the relevant asset and is recognised in the consolidated income statement.

(j) Intangibles

Phoslock license patents and trademarks

Licences, patents and trademarks are recognised at cost of acquisition. All intellectual property has a finite life and is carried at cost less any accumulated amortisation and any impairment losses. Licences, patents and trademarks are amortised over their useful lives representing the term of the intellectual property.

Research and development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

(k) Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

<u>Policy applicable for 1 July 2017 to 30 June 2018</u>

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified “at fair value through profit or loss”, in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method, or cost.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint ventures as being subject to the requirements of accounting standards specifically applicable to financial instruments.

Financial assets at fair value through profit or loss

Financial assets are classified as "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying amount being included in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

Financial liabilities

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

Policy applicable for 1 July 2018 to 31 December 2018

AASB 9: *Financial Instruments*

AASB 9 *Financial Instruments* became effective for periods beginning on 1 January 2018, replacing the existing accounting requirements for financial instruments under AASB 139 *Financial Instruments: Recognition and Measurement*.

Classification

AASB 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

AASB 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing categories of held to maturity, loans and receivables and available for sale.

The new standard retains the existing requirements for the classification of financial liabilities. Generally, all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss. However, the new standard requires that the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI, while the remaining amount of change in the fair value is presented in profit or loss.

Impairment

AASB 9 applies a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under AASB 9, loss allowances will be measured on either of the following issues:
- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. Any entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting period. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component.

The Group has applied AASB 9 retrospectively, with no material change to the carrying amount of its financial instruments when measured under the requirements of AASB 9. From a classification perspective, there was no impact to the Group's financial instruments as reflected in the table below. An analysis has been performed of the expected credit losses associated with the Groups in-scope financial assets and note that the provisions raised under AASB 139 are sufficient when considering the lifetime expected credit losses associated with these assets.

The measurement bases of the Group's financial assets and liabilities under AASB 139 and AASB 9 are as follows:

1 July 2018 Asset/Liability	Measurement Category under AASB 139	Measurement Category under AASB 9	Carrying amount of asset/(liability) under AASB 9 and AASB 139 ($)
Cash & cash equivalents	Loans & receivables	Financial liabilities at amortised cost	4,324,053
Trade & other receivables	Loans & receivables	Financial liabilities at amortised cost	11,491,617
Trade & other payables	Financial liabilities at amortised cost	Financial liabilities at amortised cost	4,504,009

(l) Impairment of Financial Assets

A financial asset (or a group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Group recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

(m) Derecognition

Financial assets are derecognised when the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

(n) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item including the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expenses.

(o) Employee Benefits

Short-term obligations

Provision is made for the Group's obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages and salaries. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Group's obligations for short-term employee benefits such as wages and salaries are recognised as a part of current trade and other payables in the statement of financial position. The Group's obligations for employees' annual leave and long service leave entitlements are recognised as provisions in the statement of financial position.

Other long-term obligations

Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on corporate bonds that have maturity dates that approximate the terms of the obligations. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

The Group's obligations for long-term employee benefits are presented as non-current provisions in its consolidated statement of financial position, except where the Group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

Equity-settled compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange of the grant of share options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted at the date of grant, excluding the impact of any non-market vesting conditions. The fair value of options is determined using the Black-Scholes pricing and Binomial Call Option pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) when the options are exercised.

On lapse of share options according to the plan, corresponding amount recognised in employee's share-based compensation reserve is transferred to retained profits.

(p) Goods and Services Tax (GST) / Value-Added Tax (VAT)

Revenues, expenses and assets are recognised as net of the amount of GST (or VAT in certain countries which the Group and its Controlled Entities have operation), except where the amount of GST/VAT incurred is not recoverable from the corresponding tax authority. In these circumstances the GST/VAT is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the consolidated statement of financial position are shown inclusive of GST.

Cash flows are presented in the consolidated statement of cash flow on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(q) Contributed Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Where any Group company purchases the Company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of the Company as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of the Company.

(r) Earnings Per Share

Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(s) Parent Entity Financial Information

The financial information for the parent entity, Phoslock Environmental Technologies Limited, disclosed in Note 12 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries and associates

Investments in subsidiaries and joint venture entities are accounted for at cost in the financial statements of Phoslock Environmental Technologies Limited. Dividends received from associates are recognised in the parent entity's profit or loss when its right to receive the dividend is established.

Tax consolidation

Phoslock Environmental Technologies Limited - head entity, and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under tax consolidation legislation. Each entity in the Group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the 'stand-alone tax payer' approach to allocation. Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the head entity.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Phoslock Environmental Technologies - head entity, for any current tax payable assumed and are compensated by the head entity for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to the head entity under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

Phoslock Environmental Technologies Limited notified the Australian Taxation Office that it had formed an income tax consolidated group to apply from 1 July 2005.

Financial guarantees

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

Share-based payments

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

(t) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Committee of the Board of Directors of the Company that makes strategic decisions.

(u) Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are as follows:

Income taxes

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgment is required in determining the worldwide provision for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain.

The Group estimates its tax liabilities based on the Group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Provision for impairment of receivables

The provision for impairment of receivables assessment requires a degree of estimation and judgment. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivable, historical collection rates and specific knowledge of individual debtors' financial position.

Impairment

The Group assesses impairment at the end of each reporting period by evaluating the conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

NOTE 2 - REVENUE

	6 months ended 31 December 2018	12 months ended 30 June 2018
	$	$
Sales revenue		
- Sale of goods	8,980,593	15,427,079
- Provision of service	5,285	280,021
	8,985,878	**15,707,100**
Other revenue		
- Interest received	8,130	18,036
- Research & development grants	307,878	361,980
- Other income	20,804	167,383
	336,812	**547,399**
Total sales and other revenue	**9,322,690**	**16,254,499**

NOTE 3 - EXPENSES FOR THE PERIOD

	6 months ended 31 December 2018	12 months ended 30 June 2018
	$	$
Expenses		
- Interest on related party loans	-	50,960
- Other interest	-	31,674
Total finance costs	-	**82,634**
Rental expense on leased premise	172,383	312,817
Employee benefit expense (excluding options expenses)	1,427,614	2,612,148
Superannuation contributions	80,403	159,541
Depreciation and amortisation	56,389	45,605

For detailed discussion on significant expenses items, please refer to the Directors' Report.

NOTE 4 - INCOME TAX EXPENSE

	6 months ended 31 December 2018	12 months ended 30 June 2018
	$	$
(a) Income tax expense		
- Current - Australia*	-	-
- Current - China	495,242	892,661
- Current - elsewhere	-	521
- Deferred tax	30,558	(87,629)
	525,800	**805,553**
(b) The prima facie tax payable on the profit from ordinary activities is reconciled to the income tax provided in the account as follows:		
(Loss)/Profit before income tax	**(143,039)**	**913,580**
Income tax using domestic tax rate 27.5% (FY2018: 27.5%)	**(39,336)**	**251,235**
Tax effect of		
- Income not subject to tax	(85,074)	(99,545)
- Expense not deductible for tax	153,102	259,368
- Share options expenses	490,001	499,391
- Tax loss not recognised as deferred tax assets	71,660	(102,418)
- Foreign subsidiaries	(64,553)	(2,478)
	525,800	**805,553**
Weighted average effective tax rate	11.7%	14.6%
(c) Unrecognized deferred tax assets		
Accumulated losses	29,946,765	30,051,202
Potential tax losses	**8,235,360**	**8,264,081**
Temporary differences – accruals and provisions	450,160	451,915
Potential tax benefit	**123,794**	**124,277**
Total deferred tax assets not bought to account	**8,359,154**	**8,388,357**

* No provision for Australia profit tax has been made for the period ended 31 December 2018 as the tax consolidated group in Australia currently has brought forward tax losses.

NOTE 5 - OTHER LIABILITIES

	As at 31 December 2018	As at 30 June 2018
	$	$
Current		
Unearned revenue	71,815	-
Non-current		
Investment incentive received in advance from Chinese government	40,841	37,800
Total other liabilities	**112,656**	**37,800**

NOTE 6 - KEY MANAGEMENT PERSONNEL COMPENSATION

The totals of remuneration paid to key management personnel of the Company and the Group during the period are as follows:

	6 months ended 31 December 2018	12 months ended 30 June 2018
	$	$
Short term employee benefits	716,457	1,314,659
Post-employment benefits (contributions to superannuation, including salary sacrifice)	89,917	182,921
Long term benefits	18,393	79,344
Equity compensation benefits	1,507,174	1,447,839
Total compensation	**2,331,941**	**3,024,763**

NOTE 7 - AUDITORS REMUNERATION

	6 months ended 31 December 2018	12 months ended 30 June 2018
	$	$
Audit and audit-related services (KPMG)		
- Audit and review of financial report – KPMG Australia	109,988	81,000
- Overseas audit – KPMG China	80,921	81,400
Total audit and audit-related services	**190,909**	**162,400**
Other services (auditor of the Group – KPMG China)		
- In relation to other assurance, taxation and due diligence services	-	65,324
Total other services	-	**65,324**
Total auditor's remuneration	**190,909**	**227,724**

NOTE 8 - EARNINGS PER SHARE

(a) Reconciliation of earnings to profit and loss

	6 months ended 31 December 2018	12 months ended 30 June 2018
	$	$
- (Loss)/Profit	(668,840)	108,026
- (Profit) attributable to non-controlling equity interest	-	(106,722)
- Earnings used to calculate basic EPS	(668,840)	1,304
Earnings used in the calculation of dilutive EPS	**(668,840)**	**1,304**

(b) Weighted average number of ordinary shares outstanding during the period used in calculating

	No.	No.
Weighted average number of shares	488,144,161	464,648,774
Weighted average number of options outstanding	24,978,421	-
Weighted average number of ordinary shares outstanding during the period used in the calculation of dilutive EPS	**513,122,582**	**464,648,774**

NOTE 9 - CASH AND CASH EQUIVALENTS

	As at 31 December 2018	As at 30 June 2018
	$	$
Cash at bank and on hand	4,878,095	4,324,053
	4,878,095	**4,324,053**

(a) Financial assets

Westpac Banking Corporation holds security over a cash deposit account (rental guarantee) of $25,575 (30 June 2018: $25,000) with effective interest rate of 2.3% (FY2018: 2.3%).

NOTE 10 - TRADE AND OTHER RECEIVABLES

		As at 31 December 2018	As at 30 June 2018
		$	$
Current			
Trade receivables		17,562,206	11,116,617
Less provisions for impairment		-	-
		17,562,206	**11,116,617**
Grant income receivables		200,000	375,000
		200,000	**375,000**
		17,762,206	**11,491,617**

(a) Provision for impairment of receivables

Current trade receivables (except China) are generally on 30 - 60 day terms. Chinese entities have general trading terms between 60 - 150 days. AASB 9 replaces the "incurred loss" model in AASB 139 with a forward looking "expected credit loss" (ECL) model. The Group will exercise considerable judgement about how changes in economic factors affect ECL, which is determined on a probability-weighted basis. There is consideration around the probability of default upon initial recognition and subsequent assessment as to whether there has been a significant increase in credit risk at each reporting period.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets. Under AASB 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: where there are ECLs that result from possible default events within 12 months from the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group has applied the simplified approach to recognise lifetime expected credit losses for trade receivables, and finance lease receivables as permitted by AASB 9. The Group notes that the impact on transition from application of the expected credit loss model of AASB 9 is not material.

There has been no movement to the provision for impairment of receivables during the six months to 31 December 2018 (FY2018 (12 months): Nil).

The following table details the consolidated entity's trade and other receivables exposed to credit risk with ageing analysis and impairment provided thereon. Amounts are considered "past due" when the debt has not been settled within the terms and conditions agreed upon between the consolidated entity and the customer or counterparty to the transaction. The balances of receivables that remain within initial trade terms, as detailed below, are considered to be of a high credit quality.

NOTE 10 - TRADE AND OTHER RECEIVABLES (continued)

	Gross Amount	Past Due and Impaired	Past Due but Not Impaired (Days Overdue)				Within Initial Trade Limits
			<30	31-60	61-90	90>	
As at 31 December 2018	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Trade and other receivables	17,562,206	-	7,006,403*	-	-	133,541	10,422,262
Other receivables	200,000	-	-	-	-	-	200,000
Total	**17,762,206**	-	**7,006,403**	-	-	**133,541**	**10,622,262**
As at 30 June 2018	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Trade and other receivables	11,116,617	-	195,523	-	-	-	10,921,094
Other receivables	375,000	-	-	-	-	-	375,000
Total	**11,491,617**	-	**195,523**	-	-	-	**11,296,094**

* Rmb 45 million has been received in January 2019 (after the balance sheet date).

NOTE 11 - INVENTORIES

	As at 31 December 2018	As at 30 June 2018
	$	**$**
Current		
Raw material (at cost)	582,766	276,555
Finished goods (at cost)	1,825,555	1,496,342
	2,408,321	**1,772,897**

NOTE 12 - PARENT ENTITY INFORMATION

(a) The parent entity of the consolidated entity is Phoslock Environmental Technologies Limited

	As at 31 December 2018	As at 30 June 2018
	$	**$**
Current assets	20,160	19,066
Non-current assets	27,382,273	19,546,672
Total assets	**27,402,433**	**19,565,738**
Term liabilities	-	-
Total liabilities	-	-
Net assets	**27,402,433**	**19,565,738**
Issued capital	59,900,892	51,298,783
Share based payment and options reserve	5,198,382	3,416,558
Accumulated lossess	(37,696,841)	(35,149,603)
Total equity	**27,402,433**	**19,565,738**
Loss after income tax	(2,547,238)	(2,728,388)
Other comprehensive income	-	-
Total comprehensive loss	**(2,547,238)**	**(2,728,388)**

During the six months ended 31 December 2018, 31,500,000 options were exercised and converted into shares (FY2018 (12 months): 22,100,000). 15,377,780 shares were issued in a Share Placement in July 2018 (FY2018 (12 months): 26,460,071).

(b) Controlled entities of the parent entity

	Country of	Percentage Owned (%)*	
	Incorporation	31 December 2018	30 June 2018
Subsidiaries of Phoslock Environmental Technologies Limited:			
Phoslock Pty Ltd	Australia	100	100
Phoslock Technologies Pty Ltd	Australia	100	100
Phoslock International Pty Ltd	Australia	100	100
Phoslock Water Solutions (UK) Ltd	United Kingdom	100	100
Phoslock Europe GmbH	Switzerland	100	60
Phoslock (Shanghai) Water Solutions Ltd	China	100	100
Phoslock (Changxing) Water Solutions Ltd	China	100	100
Phoslock (Beijing) Ecological Engineering Technology Co., Ltd	China	100	100
Beijing Ecosystime Environmental Science and Technology Co., Ltd	China	100	100

On 24 September 2018, the Group paid $11,531 to settle the acquisition of 40% of the shares and voting interests in Phoslock Europe GmbH. As a result, the Group's equity interest in Phoslock Europe GmbH increased from 60% to 100%.

NOTE 13 - PROPERTY, PLANT AND EQUIPMENT

	As at 31 December 2018	As at 30 June 2018
	$	$
Property, plant and equipment, at cost	2,040,380	1,927,725
Less accumulated depreciation	(574,388)	(453,702)
	1,465,992	**1,474,023**

	Motor Vehicles	Leasehold Improvement	Plant and Equipment	Total
	$	$	$	$
Balance at 1 July 2018	**6,001**	**181,091**	**1,286,931**	**1,474,023**
Additions	-	1,286	111,369	112,655
Depreciation expense*	(3,000)	(30,840)	(86,846)	(120,686)
Balance at 31 December 2018	**3,001**	**151,537**	**1,311,454**	**1,465,992**
Balance at 1 July 2017	**14,500**	-	**1,023,593**	**1,038,093**
Additions	-	182,395	402,699	585,094
Depreciation	(8,499)	(1,304)	(139,361)	(149,164)
Balance at 30 June 2018	**6,001**	**181,091**	**1,286,931**	**1,474,023**

* A$64,297 of the depreciation expense is recorded in cost of sales (FY2018: $103,599) in relation to the Changxing factory

NOTE 14 - INTANGIBLE ASSETS

	As at 31 December 2018	As at 30 June 2018
	$	$
Trademarks and licences		
Cost	4,159,660	4,159,660
Accumulated amortisation and impairment	(4,159,660)	(4,159,660)
Net carrying value	-	-
Development costs		
Cost	323,740	323,740
Impairment	(323,740)	(323,740)
Net carrying value	-	-
Patent		
Cost	137,848	77,977
Accumulated amortisation and impairment	(1,438)	(476)
Net carrying value	**136,410**	**77,501**
Total intangible assets	**136,410**	**77,501**

Impairment of Trademarks & Licences and Development Costs as at 31 December 2018

In 2011, the directors resolved to impair the carrying value of Company's Intellectual Property ($2,092,554) based on value in use calculation. The Company's Intellectual Property is core to the Phoslock business. The directors believe that the carrying value of the Intellectual Property does not affect the Phoslock business and that nothing has changed to the length of protection afforded to the Company via its patents and trademarks.

NOTE 15 - OTHER ASSETS

	As at 31 December 2018	As at 30 June 2018
	$	$
Current		
- Prepayments	260,039	282,646
- VAT deposit guarantee	17,562	17,103
- VAT credit	151,902	239,173
- Other current assets	18,900	18,900
	448,403	**557,822**

NOTE 16 - DEFERRED TAX ASSETS

	As at 31 December 2018	As at 30 June 2018
	$	$
The balance comprises temporary differences attributable to:		
Accrued expenses	358,314	633,594
Tax losses	-	68,826
	358,314	**702,420**

NOTE 17 - TRADE AND OTHER PAYABLES

	As at 31 December 2018	As at 30 June 2018
	$	$
Current		
Trade payables	1,974,141	4,409,440
Sundry payables and accrued expenses	140,426	94,569
	2,114,567	**4,504,009**

All trade and other payables are unsecured and are non-interest bearing. The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 28 Financial Risk Management.

NOTE 18 - FINANCIAL LIABILITIES

	As at 31 December 2018	As at 30 June 2018
	$	$
Current		
Related party subordinated loan (unsecured)	-	310,022
	-	**310,022**

NOTE 19 - PROVISIONS

	6 months ended 31 December 2018	12 months ended 30 June 2018
	$	$
Current		
Employee entitlements		
Opening Balance at 1 July	363,752	352,134
Additional provisions	73,424	162,855
Amounts used	(49,016)	(151,237)
Balance	**388,160**	**363,752**
Non-current		
Employee entitlements		
Opening Balance at 1 July	4,210	8,707
Additional provisions	-	-
Amounts used	(4,210)	(4,497)
Balance	-	**4,210**
Analysis of total provisions		
Current	388,160	363,752
Non-current	-	4,210
	388,160	**367,962**

Current employee entitlements

During the six months ended 31 December 2018, the Company undertook annual leave buy-backs from employees. Each employee with more than 200 hours of accrued leave were entitled to sell-back 80 hours of annual leave at each buy back. The Board approved the buy-backs to reduce the amount of accrued employee entitlements.

Non-current employee entitlements

Non-current employee entitlements relate to employees' long service leave estimated using the present value of future cash flows of long service leave discounted by the probability that the leave will be taken. Probability is guided by the Company's history of leave taken.

NOTE 20 - ISSUED CAPITAL

	As at 31 December 2018	As at 30 June 2018
	$	$
528,691,581 fully paid ordinary shares (30 June 2018: 481,813,801)	59,900,892	51,298,783
	59,900,892	**51,298,783**

(a) Ordinary Shares

	6 months ended 31 December 2018		12 months ended 30 June 2018	
	No.	$	No.	$
At the beginning of the period	**481,813,801**	**51,298,783**	**413,084,403**	**41,551,112**
Shares issued during the period				
- 7 July 2017, conversion of options	-	-	1,000,000	71,000
- 24 July 2017, conversion of options	-	-	1,000,000	90,000
- 1 August 2017, conversion of options	-	-	650,000	58,500
- 9 August 2017, conversion of options	-	-	1,000,000	90,000
- 21 August 2017, conversion of options	-	-	1,500,000	135,000
- 23 August 2017, conversion of options	-	-	2,000,000	180,000
- 25 August 2017, conversion of options	-	-	5,000,000	300,000
- 26 September 2017, conversion of options	-	-	7,450,000	670,500
- 26 September 2017, issue of shares under a Placement	-	-	22,960,071	4,018,012
- 20 October 2017 issue of shares under Share Purchase Plan	-	-	20,169,327	3,529,597
- 30 November 2017, issue of shares under a Placement	-	-	3,500,000	612,000
- 12 January 2018, conversion of options	-	-	1,000,000	71,000
- 2 February 2018, conversion of options	-	-	1,500,000	106,500
- 12 July 2018, issue of shares under a Placement	15,377,780	5,536,001	-	-
- 26 October 2018, conversion of options	10,000,000	1,050,000	-	-
- 8 November 2018, conversion of options	20,000,000	2,100,000	-	-
- 27 November 2018, conversion of options	1,500,000	157,500	-	-
Transaction costs arising from Share Placement	-	(224,472)	-	(184,938)
Transaction costs arising from options conversion	-	(16,920)	-	-
Balances at the end of the period	**528,691,581**	**59,900,892**	**481,813,801**	**51,298,783**

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At shareholder meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

(b) Capital management

Management control the capital of the Group in order to maintain an appropriate debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital include ordinary share capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements. Management effectively manages the Group's capital by assessing the Groups' financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels and share issues.

Group equity increased during the six months by $8,602,109 from a share placement ($5,311,529); and conversion of unlisted options ($3,290,580). The gearing ratio for the period ended 31 December 2018 and 30 June 2018 are as follows:

		As at 31 December 2018	As at 30 June 2018
	Note	$	$
Total borrowings (including trade creditors)	17, 18	2,186,382	4,814,031
Less cash and cash equivalents	9	(4,878,095)	(4,324,053)
Net debt		(2,691,713)	489,978
Total equity		23,996,741	14,056,894
Total assets		**27,483,316**	**20,425,333**
Gearing ratio		(12.6%)	3.4%

NOTE 21 - RESERVES

(a) Foreign currency translation reserve

The foreign currency translation reserve records exchange differences arising on translation of foreign subsidiaries.

(b) Option reserve

The option reserve records items recognised as expenses on valuation of employee share options and options issued to third parties. 35,000,000 options were issued to employees and consultants during FY2017 plus 30,000,000 options were issued during FY2017 to China Environmental Corporation (Australia) Pty Ltd as part of the terms of a Share Placement. An option expense of $1,781,824 (FY2018 (12 months): $1,815,966) was recorded for the six months period ended 31 December 2018 for share option expenses issued to employees. This amount was also credited to the Option Reserve (see Consolidated Statement of Changes in Equity). No option reserve was transferred to Retained Earnings for the six months ended 31 December 2018 (FY2018 (12 months): $248,005).

NOTE 22 - COMMITMENTS

	As at 31 December 2018	As at 30 June 2018
	$	$
(a) Finance lease commitments		
The Group does not have any finance lease commitment	-	-
(b) Operating lease commitments		
Non-cancellable operating lease		
Payable – minimum lease payments		
- not later 12 months	240,364	249,980
- between 12 months and 5 years	310,471	404,581
- greater than 5 years	-	-
	550,835	**654,561**

Non-cancellable leases relate to the lease of

- Sydney office premise expiring 30 September 2019. Rent is payable monthly in advance.
- Beijing office premise expiring 31 December 2020. Rent is payable monthly in advance.
- Changxing factory premise expiring 28 February 2022. Rent is payable annual in advance. Some rent is rebatable from the Changxing local government if certain sales revenue targets are met.

NOTE 23 - SEGMENT REPORTING

SEGMENT INFORMATION

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of geographical areas – Australia/NZ, Europe/UK, US/Canada/Brazil and China. The Group's operations inherently have similar profiles and performance assessment criteria.

Types of products and services by segment

The sale of Phoslock granules and application services and lake restoration consulting services is the main business of the Group. These products and services are provided on a geographical basis with offices and representation in each of the Company's four key geographical areas - Australia/NZ, Europe/UK, US/Canada/Brazil and China.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Inter-segment transactions

An internally determined transfer price is set for all inter-entity sales. This price is based on what would be realised in the event the sale was made to an external party at arm's-length. All such transactions are eliminated on consolidation for the Groups financial statements.

Corporate charges are allocated to reporting segments based on the segments' overall proportion of revenue generation within the Group. The Board of Directors believes this is representative of likely consumption of head office expenditure that should be used in assessing segment performance and cost recoveries.

Inter-segment loans payable and receivable are initially recognised at the consideration received net of transaction costs and then revalued to the exchange rate used at the end of the current accounting period.

Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Unless indicated otherwise in the segment assets note, investments in financial assets, deferred tax assets and intangible assets have not been allocated to operating segments.

Segment liabilities

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

Unallocated items

The following items of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- deferred tax assets and liabilities;
- corporate and finance cost
- exchange gain/loss
- tax expenses

(a) Segment performance

	Australia/NZ	Europe/UK	US / Canada / Brazil	China	Sub-Total	Eliminations	Total
	$	$	$	$	$	$	$
Six months ended 31 December 2018							
Revenue							
External sales	193,798	56,840	917,477	7,817,763	8,985,878	-	8,985,878
Inter-segment sales	465,592	-	-	453,536	919,128	(919,128)	-
Other revenue	320,251	-	-	24,064	344,315	(7,503)	336,812
Total segment revenue	**979,641**	**56,840**	**917,477**	**8,295,363**	**10,249,321**	**(926,631)**	**9,322,690**
Unallocated items							-
Total group revenue							**9,322,690**
Segment profit/(loss) before tax	**139,989**	**(37,508)**	**131,105**	**2,125,429**	**2,359,015**	**14,082**	**2,373,097**
Unallocated items:							
- corporate charges							(772,915)
- exchange gain/loss							38,602
- option costs							(1,781,824)
- tax expenses							(525,800)
(Loss) before income tax from continuing operations							**(668,840)**

	Australia/NZ	Europe/UK	US / Canada / Brazil	China	Sub-Total	Eliminations	Total
	$	$	$	$	$	$	$
Twelve months ended 30 June 2018							
Revenue							
External sales	324,822	1,707,355	2,311,084	11,363,839	15,707,100	-	15,707,100
Inter-segment sales	2,093,518	59,379	-	2,014,588	4,167,485	(4,167,485)	-
Other revenue	260,571	1,563	127,033	175,950	565,117	(17,718)	547,399
Total segment revenue	**2,678,911**	**1,768,297**	**2,438,117**	**13,554,377**	**20,439,702**	**(4,185,203)**	**16,254,499**
Unallocated items							-
Total group revenue							**16,254,499**
Segment profit/(loss) before tax	**423,735**	**270,458**	**383,824**	**3,259,098**	**4,337,115**	**(552,700)**	**3,784,415**
Unallocated items:							
- corporate charges							(930,140)
- finance costs							(84,161)
- exchange gain/loss							(40,569)
- option costs							(1,815,966)
- tax expenses							(805,553)
Profit before income tax from continuing operations							**108,026**

NOTE 23 - SEGMENT REPORTING (continued)

(b) Segment assets

	Australia/NZ	Europe/UK	US / Canada / Brazil	China	Sub-Total	Eliminations	Total
31 December 2018	$	$	$	$	$	$	$
Segment assets	21,702,290	607,451	-	21,518,200	43,827,941	(16,344,625)	27,483,316
Unallocated assets							-
Total group assets							**27,483,316**
30 June 2018							
Segment assets	13,125,398	43,766	-	17,415,750	30,584,914	(10,159,581)	20,425,333
Total group assets							**20,425,333**

(c) Segment liabilities

	Australia/NZ	Europe/UK	US / Canada / Brazil	China	Sub-Total	Eliminations	Total
31 December 2018	$	$	$	$	$	$	$
Segment liabilities	600,277	1,288,617	-	4,430,967	6,319,861	(2,833,286)	3,486,575
Unallocated liabilities							-
Total group liabilities							**3,486,575**
30 June 2018	$	$	$	$	$	$	$
Segment liabilities	113,338	675,518	-	6,567,981	7,356,837	(988,398)	6,368,439
Unallocated liabilities							-
Total group liabilities							**6,368,439**

(d) Major customers

The Group has a number of customers to which it provides both products and services. During the six months ended 31 December 2018, the Group's largest external customer accounts for 85.5% of external revenue (FY2018 (12 months): 63.6%). The five largest customers were attributable 98.4% to the Group revenues during the six months period (FY2018 (12 months): 90%).

NOTE 24 - CASH FLOW INFORMATION

	6 months ended 31 December 2018	12 months ended 30 June 2018
Reconciliation of net cash from operating activities to operating (loss)/profit after income tax	$	$
Net (loss)/profit after income tax	**(668,840)**	**108,026**
Non cash flow to profit		
Depreciation and amortization	121,648	149,640
Shares and option expense	1,781,824	1,815,966
Translation reserve	221,593	318,211
Changes in assets/liabilities		
(Increase)/decrease in trade and other receivables	(6,270,589)	(10,318,866)
(Increase)/decrease in prepayments and other assets	108,844	(416,221)
(Increase)/decrease in inventories	(635,424)	(875,561)
(Increase)/decrease in deferred tax assets	344,106	(702,420)
Increase/(decrease) in trade payables and accruals	(2,389,442)	4,128,002
Increase/(decrease) in financial & other liabilities	74,856	(34,249)
Increase/(decrease) in provisions	20,198	52,685
Increase/(decrease) in tax payables	(277,454)	1,148,646
Cash flow used in operating activities	**(7,568,680)**	**(4,626,141)**

NOTE 25 - SHARE-BASED PAYMENTS

During the six months to 31 December 2018, performance vesting criteria for the 65 million performance options have been met. Total option expense for the six months to 31 December 2018 is $1,781,824 (FY2018 (12 months): $1,815,966).

Phoslock Environmental Technologies Limited Share Options Plan

On 16 June 2017, Shareholders approved 65 million performance share options with a grant date of 16 June 2017, all subject to sales revenue performance criteria before 30 June 2019. 30 million performance options were granted to senior Chinese water executives who can assist PET business in China; 20 million performance options were granted to Phoslock Beijing executives; 15 million performance options were granted to PET employees and consultants who contribute to the Phoslock business exercisable by 20 December 2019. The exercise price is 10.5 cents. All of these options are performance options and have vested as performance criteria have been met.

Under the plan, where a participant ceases employment prior to the vesting of their share options, the share options are forfeited unless cessation of employment is due to death.

All options granted are for ordinary shares in Phoslock Environmental Technologies Limited which confer a right of one ordinary share for every option held. The options hold no voting or dividend rights and are not transferable.

Options that are not exercised by the designated expiry date automatically expire. Options will be forfeited when specified conditions attached to the options are not met.

(a) Share option plan

The key terms and conditions related to the grants under this plan are as follows; all options are to be settled by the physical delivery of shares.

Grant date	No. of instruments	Vesting conditions	Contractual life of options
Options granted to key management personnel			
- On 16 June 2017	28,000,000	- Group sales achieved $25 million or NPBT of $4 million for period from 10 April 2017 to 30 June 2019 - Remain employed beyond the vesting date	2.5 years
Options granted to employees			
- On 16 June 2017	1,100,000	Same as above	2.5 years
- On 17 July 2017	1,000,000	Same as above	2.5 years
- On 1 September 2017	200,000	Same as above	2.5 years
- On 10 October 2017	150,000	Same as above	2.5 years
Options granted to shareholders			
- On 16 June 2017	30,000,000	- Group sales achieved $25 million or NPBT of $4 million for period from 10 April 2017 to 30 June 2019	2.5 years
Options granted to consultants			
- On 16 June 2017	3,150,000	- Group sales achieved $25 million or NPBT of $4 million for period from 10 April 2017 to 30 June 2019	2.5 years
	500,000	- Remain employed beyond the vesting date	2.5 years
	250,000	- Consultant needs to purchase and pays US$3,000,000 for Phoslock products for same period as above	2.5 years
	250,000	- Consultant needs to purchase and pays US$3,000,000 for Phoslock products for same period as above	2.5 years
- On 6 November 2017	400,000	- Group sales achieved $25 million or NPBT of $4 million for period from 10 April 2017 to 30 June 2019 - Remain employed beyond the vesting date	2.5 years
Total share options	**65,000,000**		

NOTE 25 - SHARE-BASED PAYMENTS (continued)

(b) Measurement of fair values

The fair value of the share options has been measured using the Black-Scholes formula. Service and non-market performance conditions attached to the arrangements were not taken into account in measuring fair value. The inputs used in the measurement of the fair values at grant date of the equity-settled share-based payment plans were as follows:

	12 Months ended	
	30 June 2018	30 June 2017
Grant date on 16 June 2017		
Fair value at grant date	-	$0.1088
Share price at grant date	-	$0.1750
Exercise price	-	$0.1050
Expected volatility	-	81.81%
Expected life	-	811 days
Risk-free interest rate	-	1.72%
Grant date on 17 July 2017		
Fair value at grant date	$0.1299	-
Share price at grant date	$0.2000	-
Exercise price	$0.1050	-
Expected volatility	81.89%	-
Expected life	713 days	-
Risk-free interest rate	1.86%	-
Grant date on 1 September 2017		
Fair value at grant date	$0.1076	-
Share price at grant date	$0.1800	-
Exercise price	$0.1050	-
Expected volatility	76.31%	-
Expected life	677 days	-
Risk-free interest rate	1.87%	-
Grant date on 10 October 2017		
Fair value at grant date	$0.1136	-
Share price at grant date	$0.1900	-
Exercise price	$0.1050	-
Expected volatility	73.69%	-
Expected life	628 days	-
Risk-free interest rate	1.96%	-
Grant date on 6 November 2017		
Fair value at grant date	$0.1248	-
Share price at grant date	$0.2050	-
Exercise price	$0.1050	-
Expected volatility	72.00%	-
Expected life	601 days	-
Risk-free interest rate	1.78%	-

(c) Reconciliation of outstanding share options

The following is a table reconciling the movements of share options during the six months ended 31 December 2018:

	6 months ended 31 December 2018		12 months ended 30 June 2018	
	Number of options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
	No.	$	No.	$
Outstanding at 1 July	65,000,000	0.105	87,100,000	0.100
Granted	-	-	-	-
Vesting conditions not met / lapsed	-	-	-	-
Exercised	(31,500,000)	0.105	(22,100,000)	0.080
Vested options not exercised	(33,500,000)	0.105	-	-
Outstanding at 31 December	**-**	**-**	**65,000,000**	**0.105**
Exercisable at period end	**33,500,000**	**0.105**	**-**	**-**

NOTE 26 - RELATED PARTIES

(a) Key management personnel compensation

Details of key management personnel compensation are included in Note 6.

	6 months ended 31 December 2018	12 months ended 30 June 2018
	$	$
(a) Key management personnel compensation		
Details of key management personnel compensation are included in Note 6.		
(b) Transactions with relatives of specified executives		
Services provided on a normal commercial basis by parties related to specified executives:		
Margaret Schuitema – part time employment(1)	57,115	88,162
Yolanda Winks – part time employment(2)	20,688	37,115
Ben Schuitema – part time employment(1)	-	6,220
Martin Schuitema – part time employment(1)	8,426	9,000
Venus Ho – part time employment(3)	14,300	28,600
(c) Transactions with related parties		
Link Traders (Aust) Pty Ltd – rental costs for Sydney office(4)	58,102	100,233
Link Traders (Aust) Pty Ltd – interest on loans(4) & (5)	-	84,161
Serenety Holdings Pty ltd – investor relations(6)	126,107	228,006
Contribution to self-managed superannuation funds managed by related parties(1), (6) & (7)	39,338	64,680
(d) Transactions with other related parties		
Bentophos GmbH - purchase of goods & services(8)	-	93,602
(e) Balances with related parties		
Bentophos GmbH - subordinated loan to Phoslock Europe GmbH(8)	-	310,022

(1) related party of Robert Schuitema
(2) related party of Andrew Winks
(3) related party of Chris Hui
(4) Laurence Freedman is a director of this Company
(5) interest paid on loans, debt factoring to Phoslock Pty Ltd (interest rate 15%-20%) and convertible notes to Phoslock Environmental Technologies Ltd (interest rate 15%)
(6) related party of Laurence Freedman
(7) related party of Brenda Shanahan
(8) Bentophos GmbH held 40% interest in subsidiary Phoslock Europe GmbH. As at 1 July 2018, the Company acquired the 40% interests from Bentophos GmbH. Afterwards, Phoslock Europe GmbH becomes a wholly owned subsidiary of the Company.

NOTE 27 - EVENTS SUBSEQUENT TO BALANCE DATE

(1) On 18 January 2019, 12.2 million performance options were exercised into 12.2 million ordinary shares, raising $1.281 million.

(2) During January 2019, Rmb 45 million (approx. A$9.2 million) was received from trade receivables, reducing trade receivables as at 31 January 2019 to approx. $8.5 million ($17.7 million as at 31 December 2018). PET cash increased to $13.7 million as at 31 January 2019.

NOTE 28 - FINANCIAL RISK MANAGEMENT

(a) Financial risk management policies

This note discloses the Group's objectives, policies and processes for managing and measuring these risks. The Group's overall risk management plan seeks to minimize potential adverse effects due to the unpredictability of financial markets. The Group does not speculate in financial assets.

Financial risk exposure management

Risk management is carried out by the Group's risk management committee under the delegated power from the Board of Directors. The Chief Financial Officer has primary responsibility for the development of relevant policies and procedures to mitigate the risk exposure of the Group, these policies and procedures are then approved by the risk management committee and tabled at the board meeting following their approval. The main risks the Group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk.

Interest rate risk

The consolidated group's exposure to interest rate risk, which is the risk that a financial instruments value will fluctuate as a result of changes in market interest rates is detailed at Note 28 (b). The Group's debt exposure is not subject to fluctuating interest rates.

Foreign currency risk

The Group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the Group's measurement currency. In particular the US dollar, Chinese Yuan and European Euro. This risk is managed by the maintenance of foreign currency denominated bank accounts. Refer to Note 28 (b) for further details.

Liquidity risk

Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as they fall due. The consolidated entity's approach to managing liquidity risk is to ensure, that as far as possible, it will always have sufficient liquidity to meet its liabilities when due. The Group manages liquidity risk by closely monitoring forecast cash flows and ensuring that adequate access to cash facilities are maintained.

Credit risk

Credit risk is the exposure to financial loss by the consolidated entity if a customer fails to meet its contractual obligation and arises from the consolidated entity's trade receivables. During the year the consolidated Group entered into a factoring arrangement with a related party for the accounts receivable of a major customer.

Credit risk is managed on a Group basis and reviewed on a monthly basis by the Board and management. All potential customers are rated for credit worthiness taking into account their size, market position and financial standing. Customers that do not meet the Group's strict credit policies may only purchase on a cash basis.

(b) Financial instruments

(i) Financial instrument composition and maturity analysis

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. As such the amounts may not reconcile to the consolidated statement of financial position.

			Fixed Interest Rate Maturing				
	Weighted Average Effective Interest Rate	Floating Interest Rate	Within 1 Year	1 to 5 Years	Over 5 Years	Non-interest bearing	Total
31 December 2018	%	$	$	$	$	$	$
Financial Assets							
Cash and cash equivalents	0.7%	4,878,095	-	-	-	-	4,878,095
Long term deposits	2.3%	25,575	-	-	-	-	25,575
Trade and other receivables	0.0%	-	-	-	-	17,762,206	17,762,206
Total Financial Assets		**4,903,670**	**-**	**-**	**-**	**17,762,206**	**22,665,876**

30 June 2018	%	$	$	$	$	$	$
Financial Assets							
Cash and cash equivalents	0.7%	4,324,053	-	-	-	-	4,324,053
Long term deposits	2.3%	25,000					25,000
Trade and other receivables	0.0%	-	-	-	-	11,491,617	11,491,617
Total Financial Assets		**4,349,053**	**-**	**-**	**-**	**11,491,617**	**15,840,670**

			Fixed Interest Rate Maturing				
	Weighted Average Effective Interest Rate	Floating Interest Rate	Within 1 Year	1 to 5 Years	Over 5 Years	Non- interest bearing	Total
31 December 2018	%	$	$	$	$	$	$
Financial Liabilities							
Trade and other payables	0.7%	-	-	-	-	2,114,567	2,114,567
Total Financial Liabilities		**-**	**-**	**-**	**-**	**2,114,567**	**2,114,567**
30 June 2018	%	$	$	$	$	$	$
Financial Liabilities							
Trade and other payables	0.7%	-	-	-	-	4,504,009	4,504,009
Subordinated Loan	0.0%	-	-	-	-	310,022	310,022
Total Financial Liabilities		**-**	**-**	**-**	**-**	**4,814,031**	**4,814,031**

	As at 31 December 2018	As at 30 June 2018
Financial liabilities are expected to be paid as follows:	$	$
Less than 6 months	2,114,567	4,814,031
6 months to 1 year	-	-
1-5 years	-	-
	2,114,567	**4,814,031**

(ii) Net Fair Values

The net fair values of other assets and liabilities approximate their carrying value.

(iii) Sensitivity analysis

Interest rate risk and foreign currency risk

The Group has performed sensitivity analysis relating to its exposure to interest rate risk and foreign currency risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

Interest Rate Sensitivity Analysis

As at 31 December 2018, the effect on profit and equity as a result of changes in the interest rate on cash and cash equivalents, with all other variables remaining constant would be as follows:

	As at 31 December 2018	As at 30 June 2018
	$	$
Change in profit		
- Increase in interest rate by 1%	48,781	43,241
- Decrease in interest rate by 1%	(48,781)	(43,241)
Change in equity		
- Increase in interest rate by 1%	48,781	43,241
- Decrease in interest rate by 1%	(48,781)	(43,241)

NOTE 28 - FINANCIAL RISK MANAGEMENT (continued)

Foreign Currency Risk and Sensitivity Analysis

As at 31 December 2018, the effect on profit and equity as a result of changes in the value of the Australian Dollar to Renminbi on RMB sales (87% of total sales); (72% in FY2018) with all other variables remaining constant is as follows:

	As at 31 December 2018	As at 30 June 2018
	$	$
Change in profit		
- Increase in foreign exchange rate by 10%	3,878,858	5,584,190
- Decrease in foreign exchange rate by 10%	(3,878,858)	(5,584,190)
Change in equity		
- Increase in foreign exchange rate by 10%	3,878,858	5,584,190
- Decrease in foreign exchange rate by 10%	(3,878,858)	(5,584,190)

As at 31 December 2018, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the US Dollar on USD sales (10% of total sales); (12% in FY2018) with all other variables remaining constant is as follows:

	As at 31 December 2018	As at 30 June 2018
	$	$
Change in profit		
- Increase in foreign exchange rate by 10%	68,618	137,490
- Decrease in foreign exchange rate by 10%	(68,618)	(137,490)
Change in equity		
- Increase in foreign exchange rate by 10%	68,618	137,490
- Decrease in foreign exchange rate by 10%	(68,618)	(137,490)

As at 31 December 2018, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the Euro on Euro sales (0.6% of total sales); (1% in FY2018) with all other variables remaining constant is as follows:

	As at 31 December 2018	As at 30 June 2018
	$	$
Change in profit		
- Increase in foreign exchange rate by 10%	3,574	11,101
- Decrease in foreign exchange rate by 10%	(3,574)	(11,101)
Change in equity		
- Increase in foreign exchange rate by 10%	3,574	11,101
- Decrease in foreign exchange rate by 10%	(3,574)	(11,101)

The above interest rate and foreign exchange rate risk sensitivity analysis has been performed on the assumption that all other variables remain unchanged.

NOTE 29 - CONTINGENT LIABILITIES

The group has no contingent liabilities. (FY2018: Nil)

NOTE 30 - ACQUISITION OF NON-CONTROLLING INTEREST

On 24 September 2018, the Group paid $11,531 to settle the acquisition of 40% of the shares and voting interests in Phoslock Europe GmbH. In addition, a shareholder loan of $310,022 was paid at the same time to the 40% interest shareholder. As a result, the Group's equity interest in Phoslock Europe GmbH increased from 60% to 100%.

For the six months ended 31 December 2018, Phoslock Europe GmbH contributed revenue of Eur28,422 and loss of Eur12,335 to the Group's results. Following is the summary of the transactions related to the acquisition of Phoslock Europe GmbH:

	$
Cash to acquire 40% equity interest	11,531
Loan repayment to non-controlling interest shareholder	310,022
	321,553

Directors' Declaration

Phoslock Environmental Technologies

In the Directors' opinion:

1. the consolidated financial statements and notes, as set out on pages 28 to 60, and the remuneration report on pages 16 to 20 of the directors' report, are in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the financial position as at 31 December 2018 and of the performance for the period ended on that date of the Group; and

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

2. there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Note 1 confirms that the consolidated financial statements is in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Chief Executive and Chief Financial Officer have given the declarations required by section 295A of the *Corporations Act 2001* to the Directors.

The declaration is made in accordance with a resolution of the Board of Directors.

Mr Robert Schuitema

Managing Director

Dated this 27th day of February 2019
Sydney

Phoslock Environmental Technologies Limited and its Controlled Entities

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Independent Auditor's Report

KPMG

Independent Auditor's Report

To the shareholders of Phoslock Environmental Technologies Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Phoslock Environmental Technologies Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the period ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 31 December 2018
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the period then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of Phoslock Environmental Technologies Limited (the Company) and the entities it controlled at the period end or from time to time during the financial period.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

KPMG

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

This matter was addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Revenue recognition AUD $8,985,878	
Refer to Note 2 Revenue	
The key audit matter	**How the matter was addressed in our audit**
We focused on revenue recognition as a key audit matter due to the significant audit effort required to test the Group's revenue arising from: • The volume of sales across international locations; and • The significant of revenue to the financial statements. Our audit attention focused on revenue recognition from the largest revenue stream being revenue from the sale of goods (99.94% of total revenue for the 6 months to 31 December 2018). Our audit evaluated the Group's transition to the new revenue accounting standard applicable from 1 July 2018.	Our procedures included: • We evaluated the Group's revenue recognition accounting policy against the requirements of the new accounting standard applicable from 1 July 2018, the transition requirements of the new standard and disclosures in the financial report against our knowledge of the nature of the goods sold. • For each significant international location, we selected a sample of revenue transactions from sale of goods records. We checked these transaction to underlying documentation including customer contracts, invoices, proof of delivery and cash receipts from customers. • We selected a sample of revenue transactions from the sale of goods in the months of December 2018 and January 2019. We compared to underlying records to check the revenue recognition in the period the goods were delivered.

Other Information

Other Information is financial and non-financial information in Phoslock Environmental Technologies Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report and Remuneration Report. The Chairman's Report, Managing Director's Report and Shareholder Information are expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

Independent Auditor's Report (continued)

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

KPMG

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Phoslock Environmental Technologies Limited for the period ended 31 December 2018, complies with *Section 300A of the Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A of the Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 16 to 22 of the Directors' report for the period ended 31 December 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Sarah Cain

Partner

Melbourne

27 February 2019

83

Shareholder Information

The shareholder information set out below was applicable as at 18 March, 2019

A. Distribution of equity securities

Analysis of number of equity holders by size of holding:

Spread of Holding	Number of Holders	Number of Shares	% of Total Issued Capital
1 to 1,000	141	35,250	0.01%
1,001 to 5,000	577	1,762,866	0.33%
5,001 to 10,000	444	3,805,728	0.70%
10,001 to 100,000	1,226	45,267,737	8.35%
100,001 to 100,000,000	585	491,170,000	90.61%
Total	**2,973**	**542,041,581**	**100.00%**

The number of shareholders holding less than a marketable parcel ($500) of shares is 172 (1,316 shares)

B. Voting Rights

At a general meeting of shareholders:

a) On a show of hands, each person who is a member or sole proxy has one vote

b) On a poll, each shareholder is entitled to one vote for each fully paid share

C. Top 20 Security Holders

The names of the twenty largest quoted equity security holders are listed below. Shareholder totals including direct holdings and known related parties.

Shareholder (including Related Parties)		Number of Shares	% of Total Shares
Link Traders (Aust) Pty Ltd	1	88,214,250	16.27%
ZZL Pty Ltd	2	36,666,667	6.76%
Evan Clucas & Leanne Weston	3	16,306,646	3.01%
Sail Ahead Pty Ltd	4	11,042,472	2.04%
Lesweek Pty Ltd	5	10,131,284	1.87%
HSBC Custody Nominees (Australia) Limited	6	10,064,896	1.86%
Citicorp Nominees Pty Limited	7	7,792,463	1.44%
Tingshan Liu	8	7,300,000	1.35%
David Colbran	9	7,200,000	1.33%
Quizete Pty Ltd	10	7,000,000	1.29%
Hongmen Pty Ltd	11	6,420,000	1.18%
Newvest Pty Ltd	12	6,249,113	1.15%
Kyle Passmore	13	6,000,000	1.11%
Ludgate Environmental Fund Ltd	14	5,944,426	1.10%
Fraser Enterprises - Fund	15	5,918,494	1.09%
Brett Paton Family Super Fund	16	5,830,556	1.08%
Sharky Holdings Pty Ltd	17	5,400,000	1.00%
Ningping Ma	18	5,312,000	0.98%
Mario Spiranovic	19	5,297,564	0.98%
National Nominees Limited	20	5,137,546	0.95%
Total		**259,228,377**	**47.82%**
Total Shares Issued		**542,041,581**	**100.00%**

D. Substantial shareholders

Substantial shareholders (> 5% of shares held) in the Company are listed below:

Shareholder	Number of Shares	% of Total Issued Capital
Link Traders (Aust) Pty Ltd	88,214,250	16.27%
ZZL Pty Ltd	36,666,667	6.76%

E. Unquoted securities

	Number of Options	Number of Option Holders
Total number of unquoted options outstanding as at 18 March, 2019	20,150,000	18

Significant option holders

Option holder	Number of Options
Tingshan Liu	6,300,000
Robert Schuitema	3,000,000
Nigel Traill	2,000,000
Andrew Winks	2,000,000

Important Note to Shareholders

To change your address or any other details relating to your shareholding in Phoslock, you must contact the Share Registrar – Computershare on 02 8234 5000 or web.queries@phoslock.com.au.

Phoslock Environmental Technologies

Phoslock Environmental Technologies Limited
and its Controlled Entities

Sydney Head Office
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Sydney NSW 2000