Phoslock Environmental Technologies

Annual Report 2019

For the period ended 31 December 2019

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

Lachlan McKinnon
Chief Executive Officer

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 & Company Secretary

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Chairman's Report

Dear Shareholders,

Despite the global upheaval of the past months, I am pleased to report to you that your Company is in excellent shape.

While there have been disruptions to production and there have been some delays to applications, there have been no cancellations of programs either in China or in any of the countries in which we operate.

In fact, it is our expectation that, once the global economy recovers from this pandemic, extraordinary economic stimulation programs will be instituted around the world. We are confident that a significant focus will be on pollution – air, soil and water. Personal and community hygiene is likely to be a major focus of government and community spending. To this end, PET is extremely well placed globally, with a product that has a superb track record of rendering water bodies clean and safe for humans, fish and plants.

PET recently completed a $12 million institutional share placement and an issue of $3 million worth of shares, on the same terms, to PET Directors and Executives. In addition, we will shortly issue up to $5million worth of shares under a Share Purchase Plan for existing Australian and New Zealand shareholders, capped at $5 million. In total, the equity offerings could raise up to $20 million by the end of May.

After completion of all three issues, we will have a very strong balance sheet, with $25-30 million cash and $19 million trade receivables - virtually all from government, semi government or local government authorities. In the past we have had no bad debts and we anticipate this to be the case going forward.

We are mindful that, being a global company, we must not only maintain the highest corporate governance standards, but must anticipate events - both supply and demand - for our products going forward. To this end we have, in past months, substantially increased our depth of corporate management, including additions to engineering, finance and internal control personnel.

We are concentrating equally on all three of our business divisions; International Materials (excluding China), China Materials and China Contracting. China accounted for some 85% of sales in 2019 and we expect it to remain at a similar percentage level this year, although at substantially higher levels. This is as a result of two things; firstly, China appears to have almost fully recovered and is in the process of making massive government stimulus packages available across the country. Secondly, the number and size of polluted water bodies in China remains high. We are confident in our ability to manufacture and provide the materials needed for rectification. To this end, our plans remain in place to expand production both at our existing facility as well a new facility close by.

All of this fund raising and internal corporate strengthening will enable PET to confidently bid for Very Large Projects without concerns for working capital requirements- and also enables us to compete in a wider geographical framework.

Our pipeline remains strong and growing, with new projects added even in the past difficult few months. At present, the pipeline comprises some $250 million in China and $130 million Internationally. An indication of the potential for future operations is the recent commencement of a multi-year project at Xingyun Lake in Yunnan Province, south western China. This Lake is some 34 square kilometres, two thirds the size of Sydney Harbour. After initial trials, we moved to large-scale applications of Phoslock, currently using three large barges. Over 3,000 tonnes were applied in the second half of 2019 and a larger amount is anticipated to be applied in 2020. Work is also commencing on other nearby Yunnan alpine lakes, including in and around Lake Dianchi, the eighth largest freshwater lake in China, which is some nine times larger than Xingyun. A video of the Xingyun Lake application can be seen on the Phoslock home page www.phoslock.com.au. Of further note, in February we sent a shipment of Phoslock from Shanghai to Brazil as part of a continuing long-term program.

During 2019 we upgraded the Changxing factory capacity of Phoslock product from 15,000tpa to 20,000tpa. We recently signed a long term lease on a new facility nearby, three times the size of the current factory. On completion, our production lines will each have a capacity of 20,000tpa. The first of these production lines is currently being fitted out.

Following a month-long lock down and isolation, factory production re-commenced in mid-February and is now back to normal levels. Raw material

Application to Xingyun Lake, Yunnan

deliveries have resumed and shipment of finished goods is undertaken domestically via road transport.

Financially, PET continues its strong growth. Revenue for 2019 was $25.1m, up 30% over 2018. Our Gross Profit margin was maintained above 50%. Net Profit after Tax was $2.7m, compared with a 2018 loss of $1.1m, (the latter having been impacted by a large non-operating accounting expense). 2019 revenue was reduced by $4-5m due to delays or re-scheduling work from Q4 2019 to the current year.

Sales for 2020 are forecast in the range of $50-70 million, a doubling over last year. The bulk of these sales will come from carry-over work from 2019 and identified projects which the Company is confident will proceed in 2020. Some 70% of forecast sales will occur in the Yunnan alpine lakes area, an area largely unaffected by the Coronavirus.

I want to particularly complement our Deputy Chairman, Mr Zhigang Zhang, who continues to provide outstanding leadership, not only in China but in our International business. In addition Mr Ningping Ma, Deputy General Manager of BHZQ, our strategic partner in China, is also making a most significant contribution. Mrs Brenda Shanahan is playing a very important role as chairperson of the Audit & Compliance and Remuneration committees.

I would like to thank all of the hard-working Senior Management and all our employees, not only for the outstanding 2019 performance, but for their efficient and effective results in recommencing operations earlier this year under difficult circumstances. I want to particularly acknowledge the work of Mr Jason Hai, the Changxing Factory Manager and Mr Tingshan Liu, General Manager of China Sales and Projects for their absolute dedication at all times.

It is with regret to us all that Robert Schuitema has decided to retire after the Annual General Meeting. After some 15 years at the helm, 12 of which have been in lock-step with me, we have ensured that the superb product that was bought from CSIRO in 2005 would eventually find its place as an essential part of increasingly difficult global environmental problems. That Robert has managed to do so is a huge achievement. I want to officially thank him publicly for his unstinting efforts, his iron-willed determination to leave no stone unturned to ensure the success of the Company and I, together with our directors, staff and on behalf of you shareholders, wish him all the best for a well-deserved retirement.

And now I want to officially introduce Lachlan McKinnon to you who takes over the dual roles of CEO and Managing Director after the AGM. Lachlan joined the Company only a few months ago but has grabbed the reins and has already made a number of trips internationally to analyse and develop strategies going forward. He is a perfect fit for the job and I am sure you will be pleased with the plans and results that he is undertaking to ensure our success continues to grow.

Board members and senior executives hold in excess of 140 million PET shares, or some 25% of the issued capital. Ownership by directors and senior executives is very significant and reflects an enormous commitment to the Company.

I am very confident about the future we have now firmly established a significant business in China, have solid and growing international sales and are expanding into new areas of endeavour.

I look forward to continuing our regular published updates to the ASX and on our website and expect to provide you, our loyal shareholders, with more positive news as the year progresses.

Yours sincerely,

Laurence Freedman AM
Chairman
14th April, 2020

主席报告书

尊敬的股东们:

尽管过去几个月全球局势动荡，但我很高兴地向大家报告，我们公司的状况仍然良好。

虽然生产曾经中断，锁磷剂供应出现一些延误，但无论是在中国还是在我们经营的任何国家，都没有取消任何项目。

事实上，我们期望，一旦全球经济从这一流行病中复苏，世界各地将制定非同寻常的经济刺激计划。我们相信全世界重点将放在环境污染 -- 空气、土壤和水污染上。个人和社区卫生可能是政府和社区支出的主要重点。为此，风斯乐在全球处于极佳位置，其产品在为人类、鱼类和植物提供清洁和安全的水体方面有着卓越的记录。

上周，风斯乐完成了1,200万元的机构股份配售，向风斯乐所有董事和 12名高管配售股份300万元，股东购买股票计划上限为500万元。这三次股票发行总额在下月估计可筹集2,000万元。 这些资金将使风斯乐能够在没有营运资金顾虑的情况下启动大型项目，并给我们在竞争不断扩大的环境下发展机会。

随着完成以上所有三个股票发行后，我们将有一个非常强大的资产负债表，现金2,500-3,000万元，和1,900万元的应收账款--几乎全部来自政府、政府参与或地方政府。在过去，我们没有坏账，我们预计未来也不会有坏账。我们意识到，作为一家全球性公司，我们必须拥有最高的公司管理标准，必须预测未来产品的供需情况。为此，在过去几个月中，我们大幅提高了公司管理的深度，包括增加工程、财务和内部控制人员。

我们同样专注于我们的三个业务部门; 国际材料(不包括中国)、中国承包工程和中国材料。2019年，中国的销售额约占85%，我们预计今年中国的销售额将保持在类似的百分比水平，尽管我们预计今年的销售额将大幅增长。这是由于两个原因造成的：首先，中国似乎已经从经济衰退中几乎完全复苏，并且全国正在出台大规模的政府刺激计划。其次，中国受污染水体的数量和规模仍然很高。我们有信心有能力制造和提供所需的材料。为此，我们计划继续扩大现有工厂的生产，并在中国长兴新建厂房。

我们的销售渠道依然强劲并且持续增长，即使在过去困难的几个月里也增加了新的项目。目前，在中国的销售渠道约2.5亿元，国际约1.3亿元。最近在中国西南部云南省星云湖启动了一个多年期项目，这表明了未来业务的潜力。这个湖面积约34平方公里，是悉尼港的三分之二。经过初步试验，我们已转向大规模的锁磷剂投加，目前使用的是三艘大型驳船。2019年下半年，投加量超过3,000吨，预计2020年投加量将更大。其他附近的云南高山湖泊也开始动工，包括滇池及其周边地区。滇池是中国第八大淡水湖，比星云湖大9倍。在风斯乐主页www.phoslock.com.au上可以看到一段由无人机拍摄的星云湖投加视频。另一方面，在2月份，我们从上海向巴西发送了一批锁磷剂，作为持续长期计划的一部分。

2019年，长兴厂房的产能从每年15,000 吨提升至每年20,000吨。我们最近在长兴签订了一个新厂房的长期租约，这个厂房的规模是现在厂房的三倍。

经过长达一个月的停工和隔离，长兴厂房于2月中旬重新开始生产，现已恢复正常生产水平。原材料已恢复交付，成品在国内通过公路运输进行装运。

在财务方面，风斯乐继续强劲增长。2019年收入为2,510万元，比2018年增长30%。我们的毛利率维持在50% 以上。税后净利润为270万元，而2018年亏损110万元（后者受

到巨额非经营性会计费用的影响）。由于从2019年第4季度到本年度的延迟或重新安排工作，2019年收入减少了400-500万

预计2020年销售额在5,000万元至7,000万元之间，比去年翻了一番。这些销售大部分将来自2019年的结转工作，以及公司有信心在2020年开展的已确定项目。预计销售额的70% 将发生在云南高山湖泊地区，该地区基本上不受冠状病毒的影响。

我想特别补充，我们的副主席张志刚先生，他不仅在中国，而且在国际业务方面，都继续发挥卓越的领导作用。此外，我们在中国的战略合作伙伴北华中清环境副总经理马宁平先生也做出了重大贡献。Brenda Shanahan女士作为审计与治理和薪酬委员会主席发挥着非常重要的作用。

我要感谢我们的高级管理层和我们所有员工的辛勤工作，不仅感谢他们在2019年的出色表现，而且感谢他们在今年困难的情况下重新开始运营取得的高效而有效的成果。我要特别感谢长兴厂厂长海兆鹏先生和中国销售及项目总经理刘廷善先生在困难时期作出的杰出工作。

使我们深感遗憾的是Robert

Application to Xingyun Lake, Yunnan

Schuitema决定在年度股东大会后退休。在掌舵大约15年后（其中12年与我一起工作），我们在2005年从CSIRO购买的卓越产品，最终将锁磷剂作为世界各地处理日益困难的环境问题的重要组成部分。Robert做到了这一点，这是一个巨大的成就。 我要正式感谢他不懈的努力，坚忍不拔的决心，不遗余力地确保公司的成功，我与我们的董事，员工并代表股东，祝愿他退休后一切顺利。

现在我想正式向您介绍Lachlan McKinnon，在年度股东大会之后，他将接任首席执行官和总经理的双重角色。Lachlan几个月前才加入公司，但已经掌握了核心，并且已经多次出访国际市场，以分析和制定未来的战略。他非常适合这份工作，我相信你会对他所承诺的计划和成果非常满意，以确保我们以更大的速度继续增长。

董事会成员和高管持有超过1.4亿股风斯乐股票，约占已发行资本的25%。董事和高级管理人员的所有权非常重要，反映了对公司的巨大承诺。

我对风斯乐的未来充满信心。公司目前已在中国稳固地建立了重要的业务，在国际市场上有着稳固和不断增长的销售，并正在努力拓展新的领域。

我期待着继续定期在澳大利亚证券交易所和我们的网站发布更新，并期待随着这一年的进展，为您， 我们忠实的股东，提供更多的积极消息。

Laurence Freedman AM
主 席
2020年4月14日

Managing Director's Report

At the time of writing this report, most parts of the world have imposed strict measures to deal with containing the Coronavirus. This is having a significant short term impact on people's lives and businesses. The Company has taken measures to reduce the impact of the virus on both our employees and business.

A major part of our business, and over 75% of our employees, are located in China. China was the first country to experience the Coronavirus. Isolation and lock-down measures taken in late January have seen China largely overcome the virus by mid-March. Our factory in Changxing re-opening on 17 February and by early March, the factory was back to 100% capacity, producing over 50 tons per day. Recently our factory achieved a new daily production record of 60 tons. Raw materials shipments to the factory resumed by early March. We have transported containers from the factory to the Shanghai port and this boat sailed to Brazil by the end of February. Travel to most parts of China recommenced by mid-March. Our major project area, Yunnan province, has had minimal Coronavirus infections and now is back to normal. Applications and new project work is scheduled to commence in April.

Last week PET raised $12 million (before costs) via a share placement of 24 million fully paid ordinary shares at an issue price of 50 cents per share to Institutional Investors in Australia and internationally. The issue was managed by BW Equities. Demand for the share placement was very strong, resulting in the need for substantial cutbacks. All Directors, the CEO and a significant number of senior executives will contribute an additional $3 million, subject to shareholder approval, demonstrating great confidence in the future of the company. The funds raised will help facilitate the Company's rapidly growing China business. These funds will enable PET to commence large projects without working capital concerns and allows us to compete for the ever-expanding opportunities on offer. In addition to the Institutional placement, the Board has instituted a Share Purchase Plan (SPP) at 50 cents per share. This will be offered to all Australian and New Zealand registered shareholders with a cap of $30,000 per shareholder. Qualifying shareholders should receive documents over the next week. The offer will close on 30 April, 2020.

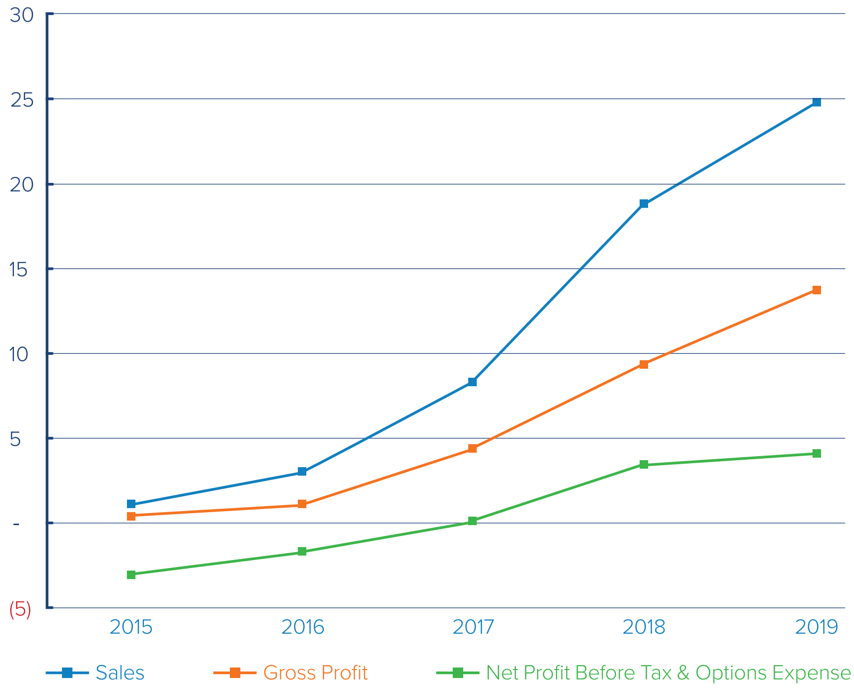
I am now going to review FY2019 and our business outlook for FY2020.

The key financial performance indicators for FY2019 (1 January to 31 December, 2019) are:

- Revenue of $25.1 million, up 30% of FY2018
- Gross Profit Margin of 54.7% (FY2018: 49.7%)
- Net Profit after Tax of $2.7 million, significantly up of FY2018 loss of $1.1 million
- Net Cashflow from Operations of $7.6m (FY2018: negative $10.2 million)
- Balance Sheet has $29.9 million of Net Assets and is largely debt free, other than normal trade creditors;
- Liquid Assets of $34.3 million comprising Cash of $15.0 million, Accounts Receivable of $17.1 million and Inventories of $2.3 million.
- PET China subsidiaries paid $1.6m during FY2019 in service, technology payments and royalties on Phoslock sales in China to PET Australia. There are no restrictions on repatriating funds back to Australia for approved purposes.

PET Group has three business segments;

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



Application to Xingyun Lake, Yunnan

Supporting the business segments is our 100% owned modern manufacturing facility in Changxing, China, 150km inland from Shanghai. The factory can currently produce 20,000tpa of Phoslock. The Company has recently announced that it has secured a second factory, one km for the current factory, which is three times larger than the current factory, and able to contain four production lines each of 20,000tpa plus significant storage space for raw materials and finished goods.

To enable shareholders to better compare historical financial performance, the Company has restated the audited financial accounts for Calendar Years 2015 to 2018. The key financials are graphically presented below.

The Company is currently forecasting * FY2020 Revenue in the range $50m - $70m, up ~ 100% on FY2019. The bulk of these sales will come from carry over work from FY2019 and identified projects which the company is very confident will proceed in 2020. Nearly 70% of forecast sales will occur in the Yunnan alpine lakes area, an area largely unaffected by the Coronavirus outbreak early this year.

* Forward Looking Statements – please refer to statement at the end of the Managing Director's Report.

The current project pipeline currently totals $380m, comprising $250m in China and $130m of International projects. The forecast period is to the end of 2023 and includes over 40 International projects, seven multi-year Chinese projects and the scheduled projects in China for FY2020.

China Sales accounted for 85% of total sales in FY2019. The highlight was the commencement of the multi-year Xingyun Lake project, in Yunnan Province, south western China. Xingyun is some 3,400 hectares, two thirds the size of Sydney Harbour. After initial trials, PET moved to large scale applications of the lake, using three large barges. Over 3,000 tons of Phoslock was applied in the second half of 2019. An even larger amount is anticipated to be applied in 2020.

Work is also commencing on other nearby Yunnan alpine lakes, including work in and around Lake Dianchi, the eighth largest freshwater lake in China, some ten times larger than Xingyun. A video of the Xingyun Lake application can be seen on www.phoslock.com.au home page.

During FY2019 PET Beijing completed the Beijing Wetland Project which involved the movement of over 130,000 tons of zeolites and volcanic materials from northern China to the wetland site, 30km south of Beijing. This involved transporting the materials over 500 km by road, rail and road to the site, then undertaking the engineering work to create these wetlands. Before the materials were laid, 100 hectares of geo-textile was laid to create a barrier between the wetland and the soils beneath.

During the year, 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 under a long term maintenance contracts is required as these canals receive daily inflows of new water.

During 2019, PET's China Business achieved two important milestones; In June, 2019 the Ministry of Water Resources, a division of China's Ministry of Environment, listed Phoslock as an authorised product which Chinese government organisations can use for phosphorus removal. The Ministry of Water Resources is the highest administrative organisation for water in China. Most of the 2,685 lakes with an area greater than 1km^2 and 98,000 reservoirs are under the management of the Ministry of Water Resources.

In October, 2019 PET's Beijing Subsidiary was awarded High Technology Status for outstanding research work on products to address China's water quality issues. The High Technology Status allows PET's Beijing Subsidiary to reduce its corporate tax rate from 25% to 15%. This has been backdated to January, 2019. It also allows PET Beijing to receive special allowances for Research & Development activities.

International Materials recorded revenue of $3.5 million for FY2019. The largest market at present is Brazil. Our licensee, HidroScience, worked on four separate projects during the year. Lake Pampulha, a project which started in 2016 has now moved to a multi-year maintenance contract. In early 2020, HidroScience secured a contract for applications to one of Rio de Janeiro's main drinking water reservoirs.

After extensive trials, work commenced on the Florida wetlands project. 400 tons was purchased to cap an area of

Application of Phoslock to Florida Wetlands

Application equipment being loaded into Belgium Drinking Water Reservoir

one of the wetlands, with the objective of significantly reducing phosphorus releases from the sediments. Success in this application could lead to significant work in some of Florida's thirty other wetland areas and in other states with similar wetland problems.

During the year, Phoslock was re-applied to the Serpentine, in London's Hyde Park. This was a follow-up treatment to the 2012 application. Phoslock was applied a number of times to a Belgium drink water reservoir. A number of smaller projects were undertaken in Holland, Belgium, Germany, Austria and Italy. Three medium sized projects in Europe, with total project value of $3.5m were delayed and likely to be completed in FY2020.

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 4,000 square metre two story factory in the Changxing Economic Zone. During the year, the Company upgraded the Changxing factory from 15,000tpa to 20,000tpa. No sooner than this was completed, the Company put in place plans to increase production from 20,000tpa to 40,000tpa of Phoslock. By year end the company had secured a 12,600 square metre factory, three times larger than our current facility, some one kilometre from our current factory. We are currently in the process of putting in place the first 20,000tpa production line in the new facility. This is expected to be operational later in Q3 2020. The new factory has the capacity to have four 20,000tpa production lines, plus significant room for storage of raw materials and finished goods.

The Changxing Factory recently received ISO accreditation from TUV 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.

In March, 2020 PET Changxing received an award as the best Foreign Capital Company in Changxing Economic Zone from the Huzhou Changxing Government. Over 400 foreign companies were eligible for this award.

PET has been involved testing and developing new products and devises, at the Changxing R&D facility. Bacteria products including a novel bacteria brick are being used in projects, along with new high speed aerators. In August, 2019 PET secured an exclusive global licence to manufacture, sell and distribute a Reusable Filter Material which, after removing phosphorus from polluted water, can be reused. The technology has been developed by a leading United States university, which has a specialist water science faculty. The university will receive royalties from product sales.

A PET team is currently working on taking the product from lab to a commercial product. The current time line to bring this product into production has been pushed out until early 2021.

In late 2019, the PET Board approved 25 million $1 Performance Options to employees and consultants. Consistent with earlier Performance Option issues, the vesting of the options in December 2020, will require significant sales hurdles to be achieved for FY2020.

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 sales and project implementation of large scale lake and reservoir remediation projects using Phoslock and other products, if necessary. PET Beijing also has a design, engineering and contract implementation team which oversaw the Beijing Wetland project. Mr Zhaopeng (Jason) Hai (海兆鹏) is Manager of the Changxing Factory. 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 Hai is currently leading the project to put the 20,000tpa production line in place in the new Changxing Factory. 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 Jinxue (Catherine) Wang (王吟雪) in Beijing and Mr Shufeng (Alan) Sun (孙

New Changxing Factory – lease signed in January 2020

Submersible, Permeable Bag Containing Reusable Product

树锋) in Changxing. PET has recently made a number of senior appointments to its team.

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.

After 15 years with the Company, I will be stepping down as Managing Director in May. I have been working with the Board for some time to ensure a smooth transition. Lachlan McKinnon joined PET in January, 2020 as CEO and will replace me in May as the Managing Director. Prior to joining PET, Lachlan had a 30 year career with Nufarm Ltd, an ASX 100 company with nearly $4 billion pa in sales, running various businesses in Australia, New Zealand, Europe and, most recently, a development role for Nufarm North America. Lachlan brings a wealth of international management expertise to PET's future growth as it expands into many exciting global opportunities.

Over the last 12 months the number of shareholders has increased from nearly 3,000 to 6,500. With a large increase in sales, profitability and a significantly improved balance sheet and ASX300 Company, 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 institutional investors and stockbrokers. Institutional shareholding in PET is currently approaching 15% and growing. The PET Board and senior management hold approximately 140 million shares or 25% of total shares.

From a personal perspective, this is my last Managing Director's Report. I have very much enjoyed my 15 years working at Phoslock. I have made over 100 trips to China and 50 to Europe/North & South America. I am leaving PET in a good financial position with a rapidly growing business. There are a number of significant milestones to look back on:

- International expansion of Phoslock® in Europe, North and South America where over 400 applications (including repeats) have been successfully completed;
- Strategic Agreement with BHZQ in 2017 which established the dynamic China operations. This has been the major driver of PET's sales and profits over the last three years;
- Maintaining a financial discipline which has enabled PET to be the company it is today; debt free with over $30M of liquid assets;
- Help take a small start-up company with a market capitalisation of $10 million to an international water remediation business with operations across the globe, and a large market capitalisation;
- A company which makes a positive difference to improving water resources around the world. Water is increasingly become a scarce resource; Phoslock improves water quality and the usefulness of that water.

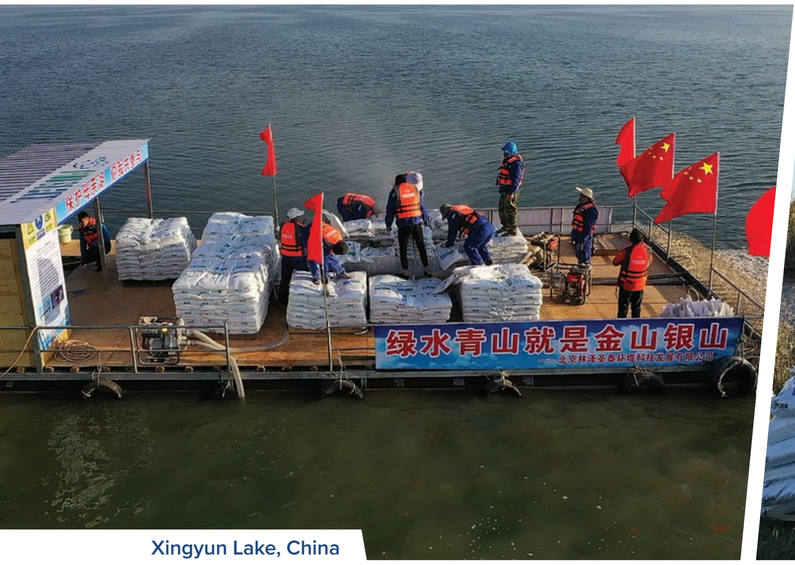
I would like to thank our Chairman Laurence Freedman AM for his help and support to not only me but for the betterment of the company. Laurence joined PET in 2011 as Chairman. At that time he was frustrated at the Company's development. Over the next few years we were able to transform a micro-cap company with a market capitalisation of $10 million into a diversified water technology and solutions company, which in now an ASX300 company.

I would like to thank present and past directors for their energy and input in helping build PET into the company it is today. It has been a pleasure working with them. I would like to thank a number of long time dedicated PET employees for their huge contributions in helping grow the Phoslock business. I wish the Board, the employees and shareholders in Phoslock continued success with PET.

Robert Schuitema
Managing Director
14th April, 2020

*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.

Wetland Construction Project, Beijing



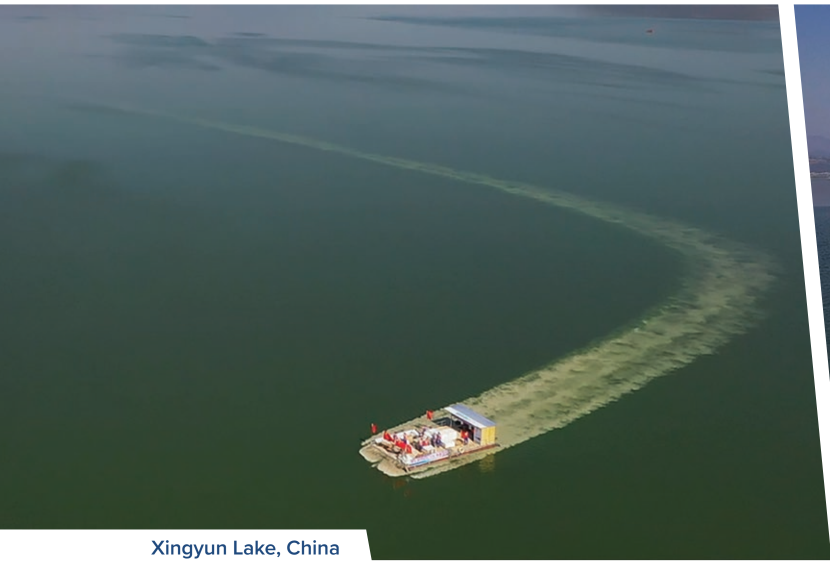
Xingyun Lake, China

Florida Wetlands, USA

Perth Lake, Australia

Xingyun Lake, China

Phoslock Environmental Technologies



Xingyun Lake, China

Xingyun Lake, China

Application to European drinking water reservoir

Board & Management Team

Directors' Report

Your directors present their report on the Company and its Controlled Entities ("the consolidated entity" or "Group") for the year ended 31 December 2019.

Directors

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

- Mr Laurence Freedman AM
- Mr Zhigang Zhang
- Mr Robert Schuitema
- Mrs Brenda Shanahan
- Mr Ningping Ma

Company Secretary

Mr Yanfai (Chris) Hui – BEng (Hons), MBA, CA, CPA, HKICPA, FCCA, AGIA (CS), ACIS.
(Appointed on 27 November 2019)

Mr Robert Schuitema – Chartered Accountant (CA), Bachelor of Commerce & Administration (BCA), Member of NZ Investment Analysts (INFINZ).
(Retired on 27 November 2019)

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, including the Company's proprietary product, Phoslock®, 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 eight 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 in the prior year. The purpose of the change is to synchronise the financial year ends of the Australian, Chinese, European & North American operations of the Group.

The financial accounts for 31 December 2019 are for a twelve-month period. The comparison period is for a six-month period ended 31 December 2018. The comparison period is determined under the Corporations Act 2001 and AASB 101 Presentation of Financial Statements.

Operating Results

Sales revenue was $24,536,398 for the 12 months (FY2018 (6 months): $8,985,878). Net operating profit before option, finance costs and tax for the 12 months was $3,752,889 (FY2018 (6 months): $1,600,182). Gross profit was $13,411,174 for the twelve months (FY2018 (6 months): $4,932,956). The gross profit margin was 54.7% for the twelve months (FY2018 (6 months): 54.9%). The gross profit margin was maintained above 50% for FY2019.

Operating expenses excluding option expenses, depreciation and amortisation, and finance costs for the twelve months to 31 December 2019 were $9,789,563 (FY2018 (6 months): $3,613,197). During FY2019 employee and technical consultant numbers increased from 60 to 70 employees. Annualizing the six months operating expenses, the year on year increase was 35%. The major increases were employee costs, occupancy and director/listing & professional fees. The Company is looking to increase employee numbers by a further

The break-down of the Group operating performance was:

12 months ended 31 Dec 19	Total Revenue & Other Income	Operating Performance
International operations	$3,891,230	$493,388
China operations	$21,221,601	$5,502,232
	$25,112,831	**$5,995,620**
Corporate charges *		($2,242,731)
Operating profit		**$3,752,889**
Exchange gain		$2,114
Finance cost		($73,236)
Option charges **		($30,392)
Net profit before tax		**$3,651,375**
Income tax expense		($952,793)
Net profit after tax		**$2,698,582**

* Including directors' fee, listing cost and holding company expenses
** Non-cash option expense relating to performance options issued to newly appointed CEO

10-15 over the next 12 months with additional sales specialists in China, technical and research & development professionals in Changxing and technical sales specialists in the international operations.
Net operating profit before option, finance costs and tax for the twelve months to 31 December 2019 was $3,752,889 (FY2018 (6 months): $1,600,182).

During the year ended 31 December 2019, the Company issued a total of 38 million performance options to employees and consultants. The issuance of options to employees and consultants provides an effective remuneration tool to align the interests of employees and shareholders. The option issuances in December 2019 for FY2020, has significant sales performance milestones. The minimum sales performance target for China and International sales for FY2020 is approximate $55 million and the maximum performance target for China and International sales for FY2020 to receive all 25 million performance options is approximate $105 million.

The performance options (include varying terms and conditions amongst the option recipients, including varying grant dates, start dates, vesting periods and vesting conditions) are disclosed in both the Remuneration Report and Note 25. The option cost for the twelve months to 31 December 2019 was $30,392. This option cost was related to the performance option issued to the newly appointed CEO in November 2019. The total option expense for the six months to 31 December 2018 was $1,781,824. The option expense is non-cash and does not affect the underlying operating performance of the Company.

The Company's Chinese subsidiary companies pay various taxes in China including company tax on its profits. In October 2019 PET's Beijing subsidiary was officially granted National High-Tech Enterprise Status by the Beijing government. PET Beijing achieved this status through a rigorous process of assessment; including examining our Research and Development programs, how our technology supports the core product and service and the maintenance of a government mandated minimum of R&D personnel as a proportion of our total workforce. PET Beijing further benefits from a corporate tax rate reduced from 25% to 15% for an initial period of three years.

This resulted in an income tax expense of $952,793 for the twelve months (FY2018 (6 months): $525,800). The tax expense calculation is detailed in Note 4.

The consolidated result for the consolidated entity for the twelve months after providing for income tax amounted to a profit of $2,698,582 (FY2018 (6 months): loss of $668,840). This included an option expense of $30,392 (FY2018 (6 months): $1,781,824).

Current assets of the Company as at 31 December 2019 were $35,422,729, made up of cash ($14,959,045); trade and other receivables ($17,148,853), inventories ($2,342,221), financial assets ($26,163) and other assets ($946,447).

Current liabilities of the Company as at 31 December 2019 were $7,711,993 made up of trade and other payables ($6,476,976); lease liabilities ($352,412), employee provisions ($548,652); tax payable in China ($333,953).

Current assets less current liabilities as at 31 December 2019 were $27,710,736 (FY2018: $22,051,291).

Plant & equipment increased during FY2019 by a net $294,728 to $1,760,720 (31 December 2018: $1,465,992). During FY2019 $554,290 was spent on new property, plant and equipment. The majority of this was for an upgrade of equipment at the Changxing manufacturing facility. This has enabled the facility to increase production from 15,000 tons per annum to approx. 20,000 tons per annum.

During the twelve months to 31 December 2019 the Company raised a total of $3,486,193 (including capital raising costs of $31,307) in new equity via the conversion of employee options into shares. This, along with profit for FY2019 of $2,698,582, has resulted in a significant improvement in the balance sheet. The Company's net assets improved to $29,934,920 as at 31 December 2019 (FY2018: $23,996,741). The Company's gearing ratio as at 31 December 2019 (including trade creditors) was (39.5%) (FY2018: (12.6%)).

Cash receipts from customers for FY2019 was $27,781,009 (FY2018 (6 months): $3,951,869. Net Cash from Operations for FY2019 was $7,564,488 (FY2018 (6 months): $7,568,680). Proceeds from the exercise of share options for FY2019 were $3,517,500. Cash used to purchase property, plant & equipment and intangible assets (patents & trademarks) totaled a cash outflow of $618,206. The combined effect of above results in a net increase of cash & cash equivalents held by

$10,084,584 taking cash & cash equivalents held as at 31 December 2019 of $14,959,045.

Dividends Paid or Recommended

No dividends have been paid or declared for payment in relation to the period ended 31 December 2019 (31 December 2018 (6 months): Nil).

On 23 September 2019 the Company made a Bonus Issue of Shares on the ratio of one new share for every 200 PET shares held. This resulted in the issuance of 2,800,113 new fully paid shares to shareholders.

Review of Operations

Sales of $24,536,398 for FY2019 were 31% higher than FY2018 ($18,688,156). The Gross Profit Margin was 54.7% for FY2019 (FY2018: 49.7%). China sales accounted for $21 million or 85% of total sales. The key projects in China were the Beijing Canals, Beijing Wetlands, Xingyun Lake and Catchment. Xingyun Lake is located in Yunnan Province in southern China. The lake is one of nine alpine lakes, 34 sq km (3,400 hectares) in area, or about two-thirds the size of Sydney Harbour.

Due to its large size, novel dosage methods were devised in order to ensure effective coverage over a reasonable period. The company constructed and introduced three special distribution barges, which operate as a team. This is a multi-year project; in 2019, over 3,000 tons of Phoslock® was applied to Xingyun Lake. A similar volume is planned for 2020 and likely beyond.

In mid-December 2019, the local authority temporarily suspended treatment of Xingyun Lake for the Chinese New Year the holiday season to allow fishing (not Coronavirus related). As a result, some $1.5M expected revenue from this project for FY2019 will be recognized in the first half of FY2020.

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). During FY2019 this team continued work on both the Beijing Canal and Beijing Wetland projects. This team has a large project at Shilongba Reservoir, Yunnan Province scheduled to commence in the first half of FY2020.

The Shilongba restoration contract value is $15-20 million, including significant quantities of Phoslock®, installation of a water treatment facility, wetlands and engineering. This project is expected to be completed in FY2020. A maintenance contract for this project is planned with an initial period of five years with a value of some $5 million pa, commencing in FY2021.

PET's international business (excluding China) recorded revenue $3.5 million for FY2019. International applications are dependent on clients obtaining approvals and financing for projects. Four international projects totaling $3.5m have been moved to FY2020. Three of the projects were in Europe where pre-work, including dredging, was not completed by year end. One North American project required approvals which have not yet been received.

Approximately 35% of international sales came via the Company's Brazilian licensee, HidroScience. The largest project was further work on Lake Pampulha, a large inner-city lake. The primary Pampulha contract was completed by 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. In February 2020 HidroScience commenced work on a major drinking water reservoir in Rio De Janerio.

Approximately, 35% of international

The Company has also compared for the financial accounts for 2019 with the composite number of 2018.

	12 months ended 31 Dec 19	12 months ended 31 Dec 18
Sales revenue	$24,536,398	$18,688,156
Cost of sales	($11,125,224)	($9,404,236)
Gross profit	**$13,411,174**	**$9,283,920**
Other income	$576,433	$692,679
Distribution expenses	($158,710)	$49,304
Marketing expenses	($642,967)	($431,064)
Occupancy expenses	($129,073)	($336,957)
Director, listing & professional fees	($2,916,138)	($2,244,069)
Administrative expenses	($6,387,830)	($3,678,007)
Operating profit	**$3,752,889**	**$3,335,806**
Finance costs	($73,236)	$1,784
Foreign exchange gains	$2,114	$12,758
Options expenses	(30,392)	($3,484,130)
Profit/(loss) before income tax	**$3,651,375**	**($133,782)**
Income tax expense	**($952,793)**	**($954,900)**
Profit/(loss) for the period	**$2,698,582**	**($1,088,682)**

sales came from SePRO Corporation, the company's United States licensee. 400 tons of Phoslock® was ordered and paid for in Q4 2019 for use in the Florida wetlands. The largest of these projects will commence in February 2020.

Positive results are expected to lead to significantly larger projects in both Florida and other regions of the U.S. In addition to Florida, the company is working with our licensee on projects in other key regions of the U.S., including Utah, the Great Lakes Region and the North East.

The remainder of international sales totaled approximate $1 million. The majority of this was for projects in Europe and UK. These include a re-application of The Serpentine, Hyde Park, London, a drinking water reservoir in Belgium and a number of smaller lakes in Holland, Germany, Belgium, UK and Austria.

The current project pipeline currently totals $380m, comprising $250m in China and $130m of international projects. The forecast period is to end 2023 and includes over 40 international projects, seven multi-year Chinese projects and FY2020 scheduled projects in China.

The criteria for inclusion in the pipeline are for projects to be at an advanced stage, dependent on customer approval and/or financing. For multi-year projects, PET has used its best estimate of sales over the forecast period.

The Company has had a wholly owned and operated 4,000 square metre manufacturing facility in Changxing, China since mid-2017. 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 had an initial production capacity of 15,000 tons per annum of Phoslock® products. During 2019, upgrades were made to the manufacturing facilities and production capacity was increased to 20,000 tons per annum. The manufacturing facility operates under strict EPA requirements. The facility received three ISO accreditations during the year from leading certifying organization, TÜV Rheinland from Germany. The facility is also audited by US organization WQA, in order to maintain our NSF60 North American Drinking Water Approval.

With the increase in the global pipeline of Phoslock® projects during 2019, the Company looked at alternatives to increase production to 40,000 tons per annum. After evaluation a number of options, a 12,600 square metre one level manufacturing facility in Changxing (1km from the current factory) came available in late 2019. The Company completed a favourable investment agreement with the Changxing Economic Development Board in January 2020. The agreement has provided a range of rebates and tax incentives covering the first five years of operations. The Company is in the process of putting the first production line of approximate 20,000 tons per annum in the new facility, to be completed during the July-September 2020 quarter. During 2021, the intention is to put a second of approximate 20,000 tons per annum, and if required, a third production line in the new facility. By the end of 2021, it is intended that the original Changxing factory will cease production and be rehabilitated so that it can be handed back to the landlord by February 2022, the current termination date of the original lease.

Financial Position

The net assets of the consolidated entity were $29,934,920 as of 31 December 2019, an improvement of $5,938,179 as of 31 December 2018. The increase in net assets is as a result of profit for the period of $2,698,582 and the conversion of employee performance options into shares totaling $3,486,193. Improved business activities led to an increase in cash & cash equivalents by $10,080,950. As at 31 December 2019 the Company had no external loans. Its liabilities were made up of trade and other payables, lease liabilities, employee annual leave and long service leave provisions and tax payable.

Capital Management

During the twelve months to 31 December 2019 the Company issued no new equity via capital raisings. The Company received $3,517,230 from the exercise of 33.5 million performance options that were issued in June 2017. The Company also issued 2,800,113 new shares arising from the 1:200 Bonus Issues of shares. This further improved the balance sheet and group liquidity.

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

There have been no significant changes in the state of affairs of the Company.

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 performance options (with performance hurdles) and discretionary 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) and superannuation. Performance options (with significant performance hurdles) and/or a discretionary bonus are awarded 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.
- All remuneration paid to key management personnel is measured at cost to the Company and expensed. Bonuses totaling $66,373 were paid to five key management personnel for the twelve months ended 31 December 2019 (For the six months period ended 31 December 2018: $25,328).

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.

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:

	12 months ended	6 months ended	12 months ended		
	31 December 2019	31 December 2018	30 June 2018	30 June 2017	30 June 2016
Sales revenue	24,536,398	8,985,878	15,707,100	3,825,406	1,730,649
Operating profit	3,752,889	1,600,182	2,852,748	(1,539,497)	(1,257,094)
Profit/(loss) before option expense and tax	3,681,767	1,638,784	2,729,545	(1,786,805)	(2,110,917)
Net (loss)/profit after tax	**2,698,582**	**(668,840)**	**108,026**	**(3,387,396)**	**(2,313,899)**

Key Management Personnel Remuneration

	Short-term Employment Benefits			Post Employment Benefits	Long-term Benefits	Share Based Payments	Total	Performance Related
31 December 2019	Salary, Fees & Commissions	Bonus	Allowance	Superannuation	Accrued Long Service Leave	Shares & Options		
Directors	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**%**
Mr Robert Schuitema	417,897	27,168	44,250	29,220	72,783	-	591,318	0.0%
Mr Laurence Freedman	83,333	-	-	8,333	-	-	91,666	0.0%
Mr Zhigang Zhang	83,333	-	-	8,333	-	-	91,666	0.0%
Mrs Brenda Shanahan	70,000	-	-	7,000	-	-	77,000	0.0%
Mr Ningping Ma	58,333	-	-	6,417	-	-	64,750	0.0%
	712,896	**27,168**	**44,250**	**59,303**	**72,783**	-	**916,400**	0.0%
Executives KMP								
Mr Lachlan McKinnon	-	-	-	-	-	30,392	30,392	100.0%
Mr Nigel Traill	166,366	15,000	33,717	18,137	3,069	-	236,289	0.0%
Mr Andrew Winks	149,538	12,000	29,200	19,074	2,620	-	212,432	0.0%
Mr Chris Hui	112,000	9,334	7,800	12,913	-	-	142,047	0.0%
Mr Tingshan Liu	141,609	11,296	8,199	26,311	-	-	187,415	0.0%
Mr Zhaopeng (Jason) Hai	99,963	18,743	-	23,879	-	-	142,585	0.0%
	669,476	**66,373**	**78,916**	**100,314**	**5,689**	**30,392**	**951,160**	**3.2%**
Total	**1,382,372**	**93,541**	**123,166**	**159,617**	**78,472**	**30,392**	**1,867,560**	**1.6%**

	Short-term Employment Benefits			Post Employment Benefits	Long-term Benefits	Share Based Payments	Total	Performance Related
For 6 months period to 31 December 2018	Salary, Fees & Commissions	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	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%**

The aggregate of non-executive director fees (including superannuation) for the twelve months ended 31 December 2019 was $325,082 (FY2018 (6 months): $140,583). As at 31 December 2019, the Board comprised four non-executive directors and one executive director. The five directors, directly and indirectly, held 107,283,905 (31 December 2018: 142,535,389) ordinary fully paid shares in the Company as at 31 December 2019 which comprised 19.0% (31 December 2018: 27.0%) of the total issued shares of the Company.

Remuneration

The executive director and five executives were paid a bonus totaling $93,541 for the twelve months ended 31 December 2019 (FY2018 (6 months): $25,328). 10 million $1.35 performance options were issued in September 2019 to the China Team. The performance milestone was to complete sales of greater than rmb70 million (before VAT) for the period September to December 2019. The China Team achieved sales of rmb67.3 million (96%) for the performance period. No options were vested and they were lapsed. There is no profit & loss accounting consequence of the unvested options.

Performance Options Issued as Part of Remuneration for the twelve months ended 31 December 2019

Managing Director, senior executives, other employees and consultants are issued performance options to assist the Company in the attraction, motivation and retention of executives.

During FY2019 the company issued and granted the following performance options:

***25 September 2019** – 10 million $1.35 performance options by the PET China Team*

- Performance milestone: PET China to record sales (before Chinese VAT) of rmb70 million for the period 1 September 2019 to 31 December 2019; eligible employees and consultants must be employed when the options are issued and remain employed by PET until after the vesting date.
- Vesting date: 31 December 2019.
- Performance achievement: rmb67.3 million (before Chinese VAT) achieve.
- Performance option milestone not achieved; options lapsed.

***27 November 2019** – 1.5 million $1.25 performance options issued to Mr Lachlan McKinnon, the newly appointed Chief Executive Officer*

- Performance milestone: PET to record sales not less than $120 million for the period 1 January 2020 to 31 December 2021; Mr McKinnon to remain employed by PET until after the vesting date.
- Vesting date: 31 December 2021
- Final exercise date: 31 December 2022

***27 November 2019** – 1.5 million $1.35 performance options issued to Mr Lachlan McKinnon, the newly appointed Chief Executive Officer*

- Performance milestone: PET to record sales not less than $200 million for the period 1 January 2020 to 31 December 2022; Mr McKinnon to remain employed by

Shares Held and Movements for the twelve months ended 31 December 2019 for Key Management Personnel

The movement for the twelve months ended 31 December 2019 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 01.01.2019	Purchased	Options Exercised	Bonus	On Market Sales	Off Market Sales	Balance 31.12.2019
Key Management Personnel	**No.**	**No.**	**No.**	**No.**	**No.**	**No.**	**No.**
Mr Laurence Freedman	88,214,250	-	-	344,201	-	(19,374,539)	69,183,912
Mr Zhigang Zhang	36,666.667	-	-	153,580	-	(11,820,247)	25,000,000
Mr Robert Schuitema	11,042,472	337,087	3,000,000	47,503	(1,024,559)	(3,855,000)	9,547,503
Mrs Brenda Shanahan	1,300,000	-	-	6,500	-	-	1,306,500
Mr Ningping Ma	5,312,000	-	-	19,368	(379,070)	(2,706,308)	2,245,990
Mr Nigel Traill	4,247,244	-	2,000,000	16,619	(3,023,636)	-	3,240,227
Mr Andrew Winks	1,720,373	-	2,000,000	15,602	(1,090,000)	-	2,645,975
Mr Chris Hui	5,500	2,500	1,000,000	5,040	-	-	1,013,040
Mr Tingshan Liu	7,335,213	1,100,000	1,000,000	31,286	(1,350,593)	(2,502,786)	5,613,120
Mr Zhaopeng (Jason) Hai	-	-	1,000,000	-	-	-	1,000,000
Total	**155,843,719**	**1,439,587**	**10,000,000**	**639,699**	**(6,867,858)**	**(40,258,880)**	**120,796,267**
Total % PET Shareholding	29.5%						21.4%

PET until after the vesting date.

- Vesting date: 31 December 2022
- Final exercise date: 31 December 2023

During FY2019 the company issued the following performance options, but not granted as granting condition was not finalised:

***3 December 2019** – 20 million $1.00 performance options issued to the PET China Team*

- Performance milestone: PET China to record sales (before VAT) for the period 1 January 2020 to 31 December 2020 per the schedule below; eligible employees and consultants must be employed when the options are issued and remain employed by PET until after the vesting date.
  - $40.001 million to $50 million – 3,000,000 options are awarded;
  - $50.001 million to $60 million – an additional 4,000,000 options are awarded;
  - $60.001 million to $70 million – an additional 3,000,000 options are awarded;
  - $70.001 million to $80 million – an additional 3,000,000 options are awarded;
  - Greater than $80 million – an additional 7,000,000 options are awarded.
- Vesting date: 31 December 2020
- Final exercise date: 30 June 2021

***3 December 2019** – 5 million $1.00 performance options issued to the PET International Team.*

- Performance milestone: PET International to record sales for the period 1 January 2020 to 31 December 2020 per the schedule below; eligible employees and consultants must be employed when the options are issued and remain employed by PET until after the vesting date.
  - $15.001 million to $20 million – 1,500,000 options are awarded;
  - $20.001 million to $25 million – an additional 1,500,000 options are awarded;
- Greater than $25 million – an additional 2,000,000 options are awarded.
- Vesting date: 31 December 2020
- Final exercise date: 30 June 2021

Under the terms of the options, where a participant ceases employment prior to the vesting of their share options, the share options are lapsed 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 lapsed 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 best aligned to these principles. 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.

The movement during the twelve months ended 31 December 2019 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 01.01.2019	Options Acquired	Options Exercised	Options Lapsed	Options Sold After Vesting	Balance 31.12.2019	Total Vested 31.12.2019	Total Unvested 31.12.2019
Key Management Personnel	**No.**	**No.**	**No.**	**No.**	**No.**	**No.**	**No.**	**No.**
Mr Laurence Freedman	-	-	-	-	-	-	-	-
Mr Robert Schuitema	3,000,000	-	(3,000,000)	-	-	-	-	-
Mr Zhigang Zhang	-	-	-	-	-	-	-	-
Mrs Brenda Shanahan	-	-	-	-	-	-	-	-
Mr Ningping Ma	-	-	-	-	-	-	-	-
Mr Lachlan McKinnon	-	3,000,000	-	-	-	3,000,000	-	3,000,000
Mr Nigel Traill	2,000,000	-	(2,000,000)	-	-	-	-	-
Mr Andrew Winks	2,000,000	-	(2,000,000)	-	-	-	-	-
Mr Chris Hui	1,000,000	-	(1,000,000)	-	-	-	-	-
Mr Tingshan Liu	18,500,000	-	(1,000,000)	-	(17,500,000)	-	-	-
Mr Zhaopeng (Jason) Hai	1,000,000	-	(1,000,000)	-	-	-	-	-
China Team - 2019	-	10,000,000	-	(10,000,000)	-	-	-	-
China Team - 2020	-	20,000,000	-	-		20,000,000	-	20,000,000
Int'l Team - 2020	-	5,000,000	-	-	-	5,000,000	-	5,000,000
Total	**27,500,000**	**38,000 000**	**(10,000,000)**	**(10,000,000)**	**(17,500,000)**	**28,000,000**	-	**28,000,000**

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:

	12 months ended 31 December 2019		6 months ended 31 December 2018	
	Number of Options	Average Exercise Price	Number of Options	Average Exercise Price
Outstanding at the beginning of the period	33,500,000	$0.105	35,000,000	$0.105
Options issued during the period	38,000,000	$1.116	-	-
Vesting conditions not met	(10,000,000)	$1.350	-	-
Vested options exercised	(35,500,000)	$0.105	(1,500,000)	$0.105
Outstanding at period end	**28,000,000**	**$1.032**	**33,500,000**	**$0.105**
Exercisable at period end	-	-	**33,500,000**	**$0.105**

* Includes options issued to employees and consultants

The 28,000,000 options were outstanding at 31 December 2019 had a weighted average exercise price of $1.032 and a weighted average expected life of 1.17 year. The average exercise price for the options outstanding at 31 December 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 and Chief Executive Officer). 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 and Chief Executive Officer). Termination payments are not payable on 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) held 120,796,267 (31 December 2018: 155,843,719) and 28,000,000 options outstanding as at 31 December 2019 (31 December 2018: 28,950,000).

There were no termination payments during the year (FY2018: Nil).

This concludes the audited remuneration report.

Meetings of Directors

During the year ended 31 December 2019, 12 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	12	12	-	-	1	1
Mr Zhigang Zhang	12	12	-	-	1	1
Mr Robert Schuitema	12	12	2	2	-	-
Mrs Brenda Shanahan	12	12	2	2	1	1
Mr Ningping Ma	12	12	-	-	1	-

Information on Directors

Mr Laurence Freedman AM	Chairman (Non-Executive)
Qualifications	CPA, MAusIMM
Experience	Board member since 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	69,183,912 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. Mr Zhang is a Director of ASX listed Enviosuite Limited.
Interest in Shares & Options	25,000,000 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 (CA), 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	9,547,503 Ordinary Shares in Phoslock Environmental Technologies Limited via his related company, Sail Ahead Pty Ltd and related party family member.
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 a former Director of EquitiLink Limited and former Non-Executive Director of ASX listed company, Challenger Financial Services, and Challenger Limited. She is also a Director of 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. 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	1,306,500 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	2,245,990 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 twelve months period, the Company has paid premiums totalling $42,789 (FY2018 (6 months): $17,909) 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.

Xingyun Lake, China

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 twelve months ended 31 December 2019, 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 twelve months ended 31 December 2019 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 twelve months ended 31 December 2019 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 year are set out in Note 7 to the Financial Statements.

Auditor's Independence Declaration

The lead auditor's independence declaration in accordance with Section 307C of the Corporations Act 2001, for the twelve months ended 31 December 2019 has been received and can be found on page 25 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, 24th March 2020

Mrs Brenda Shanahan
Non-Executive Director - Chairman of Audit Committee
Dated at Sydney, 24th March 2020

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 year ended 31 December 2019 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

24 March 2020

Corporate Governance

Phoslock Environmental Technologies Limited (PET) is committed to create shareholder value and meet the expectation of stakeholders to practice sound corporate governance. The Board of Directors guides and monitors the business and affairs of PET 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 Chair 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 Chair of the Board, Mr Laurence Freedman, is a Non-Executive Director and not involved in any day to day decision making of the Company. During the reporting period, the position of Chief Executive Officer was held by different people.

The Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.

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.

Before a Director is appointed, PET undertakes appropriate evaluations. These include independent checks of a candidate's character, experience, education, criminal record, bankruptcy history. 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 PET Group 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.

PET ensures that all Directors and Senior Executives enter into written agreements setting out the terms of their appointment, together with key Company documents and information, setting out their term of office, duties, rights and responsibilities, entitlements on termination and 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 Chair each year. The performance of all key executives, including the Managing Director, is reviewed annually against a set of financial and non-financial goals.

Independent professional advice

Each Director will have the right to seek independent professional advice at the Company's expense. The prior approval of the Chair 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.

Nomination Committee

The Committee consists of at least 3 Directors. The Company believes that the Committee members are the best qualified members of the Board to effectively perform the functions of the Committee in accordance with the Charter. A copy of Company's Nomination Committee charter can be found on the Company's website www.phoslock.com.au/investors/corporate-governance

Audit & Risk Committee

The Board shall maintain an Audit & Risk Committee of at least 2 Directors. Audit & Risk 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.

Before the Board approves the Company's financial statements for each financial period, the Chief Executive Officer and the Chief Financial Officer give the Board a declaration that, in their opinion, the financial records have been properly maintained, that the financial statements complied with the accounting standards and give a true and fair view of the financial position and performance of the Company, and that their opinion had been formed on the bases of a sound system of risk management and internal compliance and control which was operating effectively. A copy of Company's Audit & Risk Committee Charter can be found on the Company's website www.phoslock.com.au/investors/corporate-governance

The responsibilities of the Audit & Risk Committee include:

- Monitoring compliance with regulatory requirements;
- Improving the qualify 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 Committee will review the performance of the external auditors on an annual basis. Nomination of auditors will be at the discretion of the Committee.

The Audit & Risk Committee will also oversee the PET Group policies and procedures in relation to risk management and internal control systems. The policies are designed to identify, assess, manage and monitor strategic, operational, financial and project risks and mitigate the impact in the event that they materialize.

Business risk

The Board will mentor and receive advice on areas of operational and financial risks 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 Company. A copy of Company's Ethics Charter can be found on the Company's website www.phoslock.com.au/investors/corporate-governance

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 Chair, Managing Director or Company Secretary to ensure that no transactions are made where the Director or officer is in possession of price sensitive information. A copy of Company's Share Trading Policy can be found on the Company's website www.phoslock.com.au/investors/corporate-governance

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 Officers in 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 interest of the Company as a whole are safeguarded.

A conflict will arise:

- Where the private or other business interest 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.

Whistleblower policy

PET is committed to the highest standards of conduct and ethical behaviour and to promoting and supporting a culture of honest and ethical behaviour, corporate compliance and good corporate governance. PET encourages people to speak up when they see activity or behaviour that they feel is wrong or does not match its values. The purpose of this Policy is to provide clear guidance on how the company approaches and manages reports of this nature. With our Whistleblower Policy, the company aims to ensure that:

- Every person covered by this Policy has the opportunity to speak up anonymously when they feel we are not adhering to our corporate values. Our people should have a place to report misconduct, be confident that reports will be heard and acted on, and we will make improvements based on the results.
- Our people are confident that they are able to make reports anonymously. We are committed to protecting an informant's identity and informants only need to reveal themselves if they choose to.
- The company will investigate every report of misconduct. At the end of the investigation, we will document the results and provide feedback where appropriate.

A copy of Whistleblower Policy can be found on the Company's website www.phoslock.com.au/investors/corporate-governance

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 is accountable to the Board via Chair.
1.5	Company should have a Diversity Policy	A	The Company has approx. 70 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	The Board review its composition and performance on an annual basis
1.6(b)	Company should disclose whether a performance evaluation has been undertaken during the reporting period	A	Company undertook a performance evaluation during the reporting period by the Chair
1.7(a)	Periodic evaluation of senior executives	A	Company undertook an annual review evaluating each Senior Executive during the reporting period
1.7(b)	Company should disclose whether a performance evaluation has been undertaken during the reporting period	A	Company undertook a performance evaluation during the reporting period

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 is 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 Chair and some Directors are 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	Four of the five Directors are considered to be Independent Non-Executive Directors
2.5	The Chair of the Board should be an Independent Director	A	The Company has an Independent Chair
	The position of Chair and CEO/MD should not be held by the same person	A	The positions of Chair and CEO/MD are not held by the same person
2.6	Company should provide an induction program for new Directors	A	Company provides an induction program for new Directors
	Directors should be given opportunity to develop skills and knowledge for role as Director	A	Company will discuss with Chair and Directors if development support is required

Phoslock Environmental Technologies

ASX Principle			Company Status & Reference/Comment

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 & Risk Committee
4.1(a)(1)	Audit Committee should comprise at least three Directors, majority of whom are independent	A	Audit & Risk Committee currently has two members, 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 & Risk Committee is chaired by an Independent Director
4.1(a)(3)	Audit Committee should have a charter which is published	A	Audit & Risk charter is published on the Company's website
4.1(a)(4)	Relevant experience of each member of Audit Committee disclosed	A	The experience of each member of the Audit & Risk 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 & Risk committee meetings is set out in the Company's Annual Report
4.2	Board should receive a Declaration from MD/CEO and CFO that financial statements have been prepared properly and Company has appropriate controls in place	A	MD/CEO 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

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 should disclose the policy or a summary of it	A	Company is fully aware of its obligations with the ASX Listing Rules Continuous Disclosure. A disclosing policy will be published this financial year

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 & Risk 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 2019

		12 months ended 31 Dec 19	6 months ended 31 Dec 18
	Note	$	$
Sales revenue	2	24,536,398	8,985,878
Cost of sales		(11,125,224)	(4,052,922)
Gross profit		**13,411,174**	**4,932,956**
Other income	2	576,433	336,812
Distribution expenses		(158,710)	(77,173)
Marketing expenses		(642,967)	(218,271)
Occupancy expenses	3	(129,073)	(172,383)
Director, listing & professional fees		(2,916,138)	(1,036,589)
Administrative expenses		(6,387,830)	(2,165,170)
Operating profit		**3,752,889**	**1,600,182**
Finance costs	3	(73,236)	-
Exchange gains/(losses)		2,114	38,602
Options expenses	25	(30,392)	(1,781,824)
Profit/(loss) before income tax		**3,651,375**	**(143,040)**
Income tax expense	4	(952,793)	(525,800)
Profit/(loss) for the period		**2,698,582**	**(668,840)**
Other comprehensive income			
Exchange difference arising on translation of foreign controlled entities		(276,988)	236,285
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		**2,421,594**	**(432,555)**
Profit/(loss) for the period attributable to:			
- Owners of parent entity		2,698,582	(668,840)
- Non-controlling interest		-	-
Total profit/(loss) for the period		**2,698,582**	**(668,840)**
Total comprehensive income/(loss) for the period attributable to:			
- Owners of parent entity		2,421,594	(432,555)
- Non-controlling interest		-	-
Total comprehensive income/(loss) for the period		**2,421,594**	**(432,555)**
Earnings per share			
Basic earnings per share (cents per share)	8	0.53	(0.14)
Diluted earnings per share (cents per share)	8	0.53	(0.13)

The accompanying notes form part of these consolidated financial statements

Consolidated Statement of Financial Position As at 31 December 2019

		As at 31 December 2019	As at 31 December 2018
	Note	$	$
ASSETS			
Current Assets			
Cash & cash equivalents	9	14,959,045	4,878,095
Trade & other receivables	10	17,148,853	17,762,206
Inventories	11	2,342,221	2,408,321
Financial assets	9(a)	26,163	-
Other assets	16	946,447	448,403
Total Current Assets		**35,422,729**	**25,497,025**
Non-Current Assets			
Financial assets	9(a)	-	25,575
Property, plant & equipment	13	1,760,720	1,465,992
Right of use asset	14	698,730	-
Intangible assets	15	196,064	136,410
Deferred tax assets	17	-	358,314
Total Non-Current Assets		**2,655,514**	**1,986,291**
TOTAL ASSETS		**38,078,243**	**27,483,316**
Current Liabilities			
Trade & other payables	18	6,476,976	2,114,567
Lease liabilities	19	352,412	-
Other liabilities	5	-	71,815
Short term provisions	20	548,652	388,160
Tax payable		333,953	871,192
TOTAL CURRENT LIABILITIES		**7,711,993**	**3,445,734**
NON-CURRENT LIABILITIES			
Lease liabilities	19	324,954	-
Other liabilities	5	106,376	40,841
TOTAL NON-CURRENT LIABILITIES		**431,330**	**40,841**
TOTAL LIABILITIES		**8,143,323**	**3,486,575**
NET ASSETS		**29,934,920**	**23,996,741**
EQUITY			
Issued capital	21	63,387,085	59,900,892
Reserves		561,333	6,006,311
Accumulated loss		(34,013,498)	(41,910,462)
TOTAL EQUITY		**29,934,920**	**23,996,741**

The accompanying notes form part of these consolidated financial statements

Consolidated Statement of Changes in Equity For the Period Ended 31 December 2019

	Issued capital	Option Reserves	Foreign currency translation reserves	Accumulated losses	Total attributable to owners of the Company	Non-controlling interest	Total Equity
	$	$	$	$	$	$	$
31 December 2019							
Balance at 1 January 2019	**59,900,892**	**5,198,382**	**807,929**	**(41,910,462)**	**23,996,741**	**-**	**23,996,741**
Total comprehensive income							
Gain for the year	-	-	-	2,698,582	2,698,582	-	2,698,5822
Other comprehensive income	-	-	(276,988)	-	(276,988)	-	(276,988)
Total comprehensive income for the period	-	-	**(276,988)**	**2,698,582**	**2,421,594**	-	**2,421,594**
Transaction with owners in the capacity as owners							
Shares issued during the period	-	-	-	-	-	-	-
Options exercised during the period	3,486,193	-	-	-	3,486,193	-	3,486,193
Options expenses during the period	-	30,392	-	-	30,392	-	30,392
Transfer option reserves to accumulated losses	-	(5,198,382)	-	5,198,382	-	-	-
Total transactions with owners in their capacity as owners	3,486,193	(5,167,990)	-	5,198,382	3,516,585	-	3,516,585
Balance at 31 December 2019	**63,387,085**	**30,392**	**530,941**	**(34,013,498)**	**29,934,920**	**-**	**29,934,920**
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 (loss)/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
Changes in ownership interests	-	-	-	(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

Consolidated Statement of Cash Flows
For the Period Ended 31 December 2019

		12 months ended 31 December 2019	6 months ended 31 December 2018
	Note	$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		27,781,009	3,951,869
Receipts from research & development grant		347,757	484,360
Payments to suppliers & employees		(19,145,867)	(11,553,890)
Interest received		96,171	8,130
Finance costs	3	(73,236)	-
Tax paid		(1,441,346)	(459,149)
NET CASH USED IN OPERATING ACTIVITIES		**7,564,488**	**(7,568,680)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant & equipment	13	(554,290)	(112,655)
Purchase of intangible assets	15	(63,916)	(59,871)
Acquisition of non-controlling interest		-	(11,531)
NET CASH USED IN INVESTING ACTIVITIES		**(618,206)**	**(184,057)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		-	5,536,001
Proceeds from exercise of share options		3,517,500	3,307,500
Payment of transaction cost – equity raising		(31,307)	(241,392)
Repayment of borrowings		-	(310,022)
Payment of lease liabilities		(347,891)	-
NET CASH FLOW FROM FINANCING ACTIVITIES		**3,138,302**	**8,292,087**
NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS HELD		10,084,584	539,350
Cash & cash equivalents at the beginning of the period		4,878,095	4,324,053
Translation difference		(3,634)	14,692
CASH & CASH EQUIVALENTS AT THE END OF THE PERIOD		**14,959,045**	**4,878,095**

The accompanying notes form part of these consolidated financial statements

Notes to the Consolidated Financial Statements For the Period Ended 31 December 2019

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 24 March 2020.

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 in the prior year. During the transition, the last financial period was a six-month period from 1 July 2018 to 31 December 2018. The current financial accounts for 31 December 2019 are for a twelve-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 initially applied AASB 16 Leases from 1 January 2019.

The Group applied AASB 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under AASB 117 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in AASB 16 have not generally been applied to comparative information.

The Group assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 1(g).

On transition to AASB 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied AASB 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease were not reassessed for whether there is a lease under AASB 16. Therefore, the definition of a lease under AASB 16 was applied only to contracts entered into or changed on or after 1 January 2019.

i. **As a lessee**

As a lessee, the Group leases many assets including property, and IT equipment. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under AASB 16, the Group recognises right-of-use assets and lease liabilities for most of these assets – i.e. these leases are on-balance sheet.

ii. **As a lessor**

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.

Generally, the accounting policies applicable to the Group as a lessor in the comparative period were not different from AASB 16 except for the classification of the sub-lease entered into during current reporting period that resulted in a finance lease classification.

Before 1 January 2019, the Group did not involve in any transactions which acted as a lessor. During the twelve-month ended 31 December 2019, the Group did not involve in any transactions which acted as a lessor.

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

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:

New standards or amendments	Effective date
Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
Definition of a Business (Amendments to IFRS 3)	1 January 2020
Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020
AASB 1059 Service Concession Arrangements: Grantor	1 January 2020
IFRS 17 Insurance Contracts	1 January 2021
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	1 January 2022

The Group conducted preliminary assessment of the impact of the above standards, amendments to standards and interpretations, certain of which may not 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 2019. 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

AASB 15: Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining the timing and quantum of revenue recognised. It replaced 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.

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.

Type of product/service	Nature and timing of satisfaction of performance, obligations, including significant payment terms
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.
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.
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.
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.

(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

Policy applicable before 1 January 2019

i. As a lessee

In the comparative period, as a lessee the Group classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognized in the Group's statement of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

ii. As a lessor

When the Group acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Group made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Group considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

Policy applicable from 1 January 2019

i. As a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same bases as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in "property, plant and equipment' and lease liabilities in "loans and borrowings" in the statement of financial position.

Short-term leases and leases of low-value assets
The Group has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Impact on financial statements
On transition to AASB 16, the Group recognised additional right-of use assets, and additional lease liabilities. The carrying amounts of right-of-use assets are as below:

	Property	Equipment	Total
Balance at 1 January 2019	820,072	13,851	833,924
Balance at 31 December 2019	688,574	10,156	698,730

The balance for the lease liability is the same as the right-of-use assets as at 1 January 2019.

For the impact of AASB 16 on profit or loss for the period, see Note 14 & 19.

(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.

Amortization

Amortization is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. The estimated useful lives for current and comparative periods are as follows:

Patents and Trademarks	20 years
Software	3 years

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(k) **Financial Instruments**

AASB 9: Financial Instruments

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

Classification and subsequent measurement

AASB 9 contains a 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).

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measure at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held with a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measure at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair basis are measured at FVTPL.

Financial assets – Assessment whether contractual cash flows are solely payments for principal and interest
For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:
- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

Financial assets – subsequent measurement and gains and losses	
Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised costs is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measure at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

AASB 9 retains the previous 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, AASB 9 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.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(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

	12 months ended 31 December 2019	6 months ended 31 December 2018
	$	$
Sales revenue		
- Sale of goods	24,460,316	8,980,593
- Provision of service	76,082	5,285
	24,536,398	**8,985,878**
Other revenue		
- Interest received	96,171	8,130
- Research & development grants	408,061	307,878
- Other income	72,201	20,804
	576,433	**336,812**
Total sales and other revenue	**25,112,831**	**9,322,690**

NOTE 3 - EXPENSES FOR THE PERIOD

	12 months ended 31 December 2019	6 months ended 31 December 2018
		$
Expenses		
- Interest on bank notes	26,361	-
- Interest on leased liabilities	46,875	-
Total finance costs	73,236	-
Rental expense on leased premise	129,073	172,383
Employee benefit expense (excluding options expenses)	3,569,875	1,427,614
Australia superannuation contributions	175,674	80,403
Depreciation and amortisation	445,155	56,389

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

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

NOTE 4 - INCOME TAX EXPENSE

	12 months ended 31 December 2019	6 months ended 31 December 2018
	$	$
(a) Income tax expense		
- Current - Australia*	-	-
- Current - China	952,255	495,242
- Current - elsewhere	538	-
- Deferred tax	-	30,558
	952,793	**525,800**
(b) The prima facie tax payable on the profit from ordinary activities is reconciled to the income tax provided in the account as follows:		
Profit/(Loss) before income tax	**3,651,375**	**(143,040)**
Income tax using domestic tax rate 27.5% (FY2018: 27.5%)	**1,004,128**	**(39,336)**
Tax effect of		
- Income not subject to tax	(68,133)	(85,074)
- Expense not deductible for tax	119,782	153,102
- Share options expenses	8,358	490,001
- Tax loss not recognised as deferred tax assets	414,170	71,660
- Overprovision in prior years	23,072	-
- Foreign subsidiaries	(548,584)	(64,553)
	952,793	**525,800**
Weighted average effective tax rate	9.1%	11.7%
(c) Unrecognized deferred tax assets		
Accumulated losses	31,268,295	29,946,765
Potential tax losses	**8,598,781**	**8,235,360**
Temporary differences – accruals and provisions	648,656	450,160
Potential tax benefit	**178,380**	**123,794**
Total deferred tax assets not bought to account	**8,777,162**	**8,359,154**

* No provision for Australia profit tax has been made for the period ended 31 December 2019 as the tax consolidated group in Australia currently has brought forward tax losses.

NOTE 5 - OTHER LIABILITIES

	As at 31 December 2019	As at 31 December 2018
	$	$
Current		
Unearned revenue	-	71,815
Non-current		
Investment incentive received in advance from Chinese government	106,376	40,841
Total other liabilities	**106,376**	**112,656**

NOTE 6 - KEY MANAGEMENT PERSONNEL COMPENSATION

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

	12 months ended 31 December 2019	6 months ended 31 December 2018
	$	$
Short term employee benefits	1,599,079	716,457
Post-employment benefits (contributions to superannuation, including salary sacrifice)	159,617	89,917
Long term benefits	78,472	18,393
Equity compensation benefits	30,392	1,507,174
Total compensation	**1,867,560**	**2,331,941**

NOTE 7 - AUDITORS REMUNERATION

	12 months ended 31 December 2019	6 months ended 31 December 2018
	$	$
Audit and audit-related services (KPMG)		
- Audit and review of financial report – KPMG Australia	124,250	109,988
- Overseas audit – KPMG China	105,429	80,921
Total audit and audit-related services	**229,679**	**190,909**
Other services		
- KPMG Australia	30,000	-
- KPMG China	15,932	-
Total other services	**45,932**	-
Total auditor's remuneration	**275,611**	**190,909**

NOTE 8 - EARNINGS PER SHARE

(a) Reconciliation of earnings to profit and loss

	12 months ended 31 December 2019	6 months ended 31 December 2018
	$	$
- Profit/(Loss)	2,698,582	(668,840)
- (Profit) attributable to non-controlling equity interest	-	-
- Earnings used to calculate basic EPS	2,698,582	(668,840)
Earnings used in the calculation of dilutive EPS	2,698,582	**(668,840)**

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

	No.	No.
Weighted average number of shares	508,902,353	488,144,161
Weighted average number of options outstanding	-	24,978,421
Weighted average number of ordinary shares outstanding during the year used in the calculation of dilutive EPS	**508,902,353**	**513,122,582**

NOTE 9 - CASH AND CASH EQUIVALENTS

	As at 31 December 2019	As at 31 December 2018
	$	$
Cash at bank and on hand	14,959,045	4,878,095
	14,959,045	**4,878,095**

(a) Financial assets

Westpac Banking Corporation holds security over a cash deposit account (rental guarantee) of $26,163 (31 December 2018: $25,575) with effective interest rate of 1.35% (6 months to 31 Dec 2018: 2.3%). This has been classified as current asset as at 31 December 2019.

NOTE 10 - TRADE AND OTHER RECEIVABLES

		As at 31 December 2019	As at 31 December 2018
		$	$
Current			
Trade receivables		16,701,096	17,562,206
Less provisions for impairment		-	-
		16,701,096	**17,562,206**
		-	
Grant income receivables		447,757	200,000
		17,148,853	**17,762,206**

(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. 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 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.

There has been no movement to the provision for impairment of receivables during the twelve months to 31 December 2019 (FY2018 (6 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.

	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 2019	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Trade and other receivables	16,701,096	-	-	12,088	1,096,808	989,954	989,954
Other receivables	447,757	-	-	-	-	-	447,757
Total	**17,148,853**	-	-	**12,088**	**1,096,808**	**989,954**	**15,050,003**
As at 31 December 2018	**$**	**$**	**$**	**$**	**$**	**$**	**$**
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**

NOTE 11 - INVENTORIES

	As at 31 December 2019	As at 31 December 2018
	$	$
Current		
Raw material (at cost)	1,083,501	582,766
Finished goods (at cost)	1,258,720	1,825,555
	2,342,221	**2,408,321**

NOTE 12 - PARENT ENTITY INFORMATION

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

	As at 31 December 2019	As at 31 December 2018
	$	$
Current assets	2,798,617	20,160
Non-current assets	25,892,656	27,382,273
Total assets	**28,691,273**	**27,402,433**
Term liabilities	-	-
Total liabilities	-	-
Net assets	**28,691,273**	**27,402,433**
Issued capital	63,387,085	59,900,892
Share based payment and options reserve	30,392	5,198,382
Accumulated lossess	(34,726,204)	(37,696,841)
Total equity	**28,691,273**	**27,402,433**
Loss after income tax	(2,227,745)	(2,547,238)
Other comprehensive income	-	-
Total comprehensive loss	**(2,227,745)**	**(2,547,238)**

During the year ended 31 December 2019, 33,500,000 options were exercised and converted into shares (FY2018 (6 months): 31,500,000). 2,800,113 bonus shares were issued on a ratio one new share for every 200 shares held in September 2019.

NOTE 12 - PARENT ENTITY INFORMATION (continued)

(b) Controlled entities of the parent entity

		Percentage Owned (%)	
	Country of Incorporation	31 December 2019	31 December 2018
Phoslock Pty Ltd	Australia	100	100
Phoslock Technologies Pty Ltd	Australia	100	100
Phoslock International Pty Ltd	Australia	100	100
Phoslock Water Solutions (UK) Limited	United Kingdom	100	100
Phoslock Europe GmbH	Switzerland	100	100
Phoslock Belgium*	Belgium	100	-
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

* Phoslock Belgium was incorporated on 3 September 2019.

NOTE 13 - PROPERTY, PLANT AND EQUIPMENT

	As at 31 December 2019	As at 31 December 2018
	$	$
Property, plant and equipment, at cost	2,593,647	2,040,380
Less accumulated depreciation	(832,927)	(574,388)
	1,760,720	**1,465,992**

	Motor Vehicles	Leasehold Improvement	Plant and Equipment	Total
	$	$	$	$
Balance at 1 January 2019	**3,001**	151,537	1,311,454	1,465,992
Additions	-	-	554,290	554,290
Depreciation expense*	(3,001)	(62,273)	(194,288)	(259,562)
Balance at 31 December 2019	-	**89,264**	**1,671,456**	**1,760,720**
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**

* $135,312 of the depreciation expense is recorded in cost of sales (6 months to 31 Dec 2018: $64,297) in relation to the Changxing factory

NOTE 14 - RIGHT OF USE ASSET

The Group leases office and factory facilities. The leases typically run for a period of 3-5 years, with an option to renew the lease after that date. Lease payments are renegotiated to reflect market rentals after the end of lease term. Some leases provide for additional rent payments that are based on changes in local price indices. The Group also leases 2 photocopier equipment with contract terms of 4 years.

	Land and buildings	Office equipment	Total
	$	$	$
Balance at 1 January 2019	**820,072**	**13,852**	**833,924**
Additions to right-of-use assets	177,730	-	177,730
Depreciation charge for the period	(309,228)	(3,696)	(312,924)
Balance at 31 December 2019	**688,574**	**10,156**	**698,730**

NOTE 15 - INTANGIBLE ASSETS

	As at 31 December 2019	As at 31 December 2018
	$	$
Patent		
Cost	201,764	137,848
Accumulated amortisation and impairment	(5,700)	(1,438)
Net carrying value	**196,064**	**136,410**
Total intangible assets	**196,064**	**136,410**

NOTE 16 - OTHER ASSETS

	As at 31 December 2019	As at 31 December 2018
	$	$
Current		
- Prepayments	645,308	260,039
- VAT deposit guarantee	17,349	17,562
- Income tax refund	222,890	151,902
- Other current assets	60,900	18,900
	946,447	**448,403**

NOTE 17 - DEFERRED TAX ASSETS

	As at 31 December 2019	As at 31 December 2018
	$	$
The balance comprises temporary differences attributable to:		
Accrued expenses	-	358,314
	-	**358,314**

NOTE 18 - TRADE AND OTHER PAYABLES

	As at 31 December 2019	As at 31 December 2018
	$	$
Current		
- Trade payables	6,376,976	1,974,141
- Sundry payables and accrued expenses	100,000	140,426
	6,476,976	**2,114,567**

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 19 - LEASE LIABILITIES

	As at 31 December 2019	As at 31 December 2018
	$	$
Current		
Equipment	3,536	-
Leased properties	348,876	-
	352,412	-
Non-current		
Equipment	6,972	-
Leased properties	317,982	-
	324,954	-
Total lease liabilities	**677,366**	-

NOTE 19 - LEASE LIABILITIES (continued)

$46,875 of interest on lease liabilities is recognised in the profit or loss during the period.
$351,659 cash outflow for leases is recognised in the statement of cash flows during the period.

	As at 31 December 2019
	$
Maturity analysis – contractual undiscounted cash flow	
Less than one year	386,991
One to five years	375,407
More than five years	-
Total undiscounted lease liabilities	**762,398**

NOTE 20 - PROVISIONS

	12 months ended 31 December 2019	6 months ended 31 December 2018
	$	$
Current		
Employee entitlements		
Opening Balance	388,160	363,752
Additional provisions	253,580	73,424
Amounts used	(93,088)	(49,016)
Balance	**548,652**	**388,160**
Non-current		
Employee entitlements		
Opening Balance	-	4,210
Additional provisions	-	-
Amounts used	-	(4,210)
Balance	-	-
Analysis of total provisions		
Current	548,652	388,160
Non-current	-	-
	548,652	**388,160**

Current employee entitlements

During the twelve months ended 31 December 2019, 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 21 - ISSUED CAPITAL

	As at 31 December 2019	As at 31 December 2018
	$	$
564,991,694 fully paid ordinary shares (31 December 2018: 528,691,581)	63,387,085	59,900,892
	63,387,085	**59,900,892**

(a) Ordinary Shares

	12 months ended 31 December 2019		6 months ended 31 December 2018	
	No.	$	No.	$
At the beginning of the period	**528,691,581**	**59,900,892**	**481,813,801**	**51,298,783**
Shares issued during the period				
- 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
- 18 January 2019, conversion of options	12,200,000	1,281,000	-	-
- 18 February 2019, conversion of options	1,150,000	120,750	-	-
- 25 May 2019, conversion of options	5,200,000	546,000	-	-
- 11 June 2019, conversion of options	4,100,000	430,500	-	-
- 8 July 2019, conversion of options	650,000	68,250	-	-
- 12 August 2019, conversion of options	250,000	26,250	-	-
- 19 August 2019, conversion of options	500,000	52,500	-	-
- 12 September 2019, conversion of options	7,000,000	735,000	-	-
- 23 September 2019, issuance of bonus shares*	2,800,113	-	-	-
- 11 November 2019, conversion of options	1,900,000	199,500	-	-
- 11 December 2019, conversion of options	550,000	57,750	-	-
Transaction costs arising from Share Placement	-	-	-	(224,472)
Transaction costs arising from options conversion	-	(31,307)	-	(16,920)
Balances at the end of the period	**564,991,694**	**63,387,085**	**528,691,581**	**59,900,892**

* On 23 September 2019, the Company issued 2,800,113 fully paid ordinary shares in the capital of the Company to all shareholders for nil consideration on the ratio of one new share for every 200 shares held (bonus shares).

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 twelve months by $3,486,193 from conversion of unlisted options. The gearing ratio for the period ended 31 December 2019 and 31 December 2018 are as follows:

		As at 31 December 2019	As at 31 December 2018
	Note	$	$
Total borrowings (including trade creditors)	18	6,476,976	2,186,382
Less cash and cash equivalents	9	(14,959,045)	(4,878,095)
Net debt		(8,482,069)	(2,691,713)
Total equity		29,934,920	23,996,741
Total assets		**38,078,243**	**27,483,316**
Gearing ratio		(39.5%)	(12.6%)

NOTE 22 - 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. Total option expense of $5,198,382 had been recorded at 31 December 2018 and this amount was also credited to the option reserve. During this financial year, this amount has been transferred from option reserve to retained earnings.

During the year ended 31 December 2019, the Company has adopted new option plans as specified in Share Based Payments note. Under the plans, the Directors of the Company may grant options to any eligible participant to subscribe shares in the Company (see Note 25).

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
- tax expenses

(a) Segment performance

	Australia/NZ	Europe/UK	US / Canada / Brazil	China	Sub-Total	Eliminations	Total
	$	$	$	$	$	$	$
12 months ended 31 December 2019							
Revenue							
External sales	144,390	736,660	2,665,692	20,989,656	24,536,398	-	24,536,398
Inter-segment sales	1,673,623	51,709	-	1,095,961	2,821,293	(2,821,293)	-
Other revenue	358,990	2,754	-	231,945	593,689	(17,256)	576,433
Total segment revenue	**2,177,003**	**791,123**	**2,665,692**	**22,317,562**	**27,951,380**	**(2,838,549)**	**25,112,831**
Segment profit/(loss) before tax	**232,611**	**14,410**	**284,828**	**5,417,162**	**5,949,011**	**46,609**	**5,995,620**
Unallocated items:							
- corporate charges							(2,242,731)
- finance costs							(73,236)
- exchange gain/loss							2,114
- option costs							(30,392)
- tax expenses							(952,793)
Profit from continuing operations							2,698,582

	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**
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) from continuing operations							**(668,840)**

NOTE 23 - SEGMENT REPORTING (continued)

(b) Segment assets

	Australia/NZ	Europe/UK	US / Canada / Brazil	China	Sub-Total	Eliminations	Total
31 December 2019	$	$	$	$	$	$	$
Segment assets	24,201,313	599,895	-	30,674,737	55,475,945	(17,397,701)	38,078,244
Unallocated assets							-
Total group assets							**38,078,244**
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**

(c) Segment liabilities

	Australia/NZ	Europe/UK	US / Canada / Brazil	China	Sub-Total	Eliminations	Total
31 December 2019	$	$	$	$	$	$	$
Segment liabilities	1,372,185	1,283,680	-	8,002,531	10,658,396	(2,515,068)	8,143,328
Unallocated liabilities							-
Total group liabilities							**8,143,328**
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**

(d) Major customers

The Group has a number of customers to which it provides both products and services. During the twelve months ended 31 December 2019, the Group's largest external customer accounts for 36.6% of external revenue (FY2018 (6 months): 85.5%). The five largest customers were attributable 88.5% to the Group revenues during the twelve months period (FY2018 (6 months): 98.4%).

NOTE 24 - CASH FLOW INFORMATION

	12 months ended 31 December 2019	6 months ended 31 December 2018
Reconciliation of net cash from operating activities to operating profit after income tax	$	$
Net profit/(loss) after income tax	**2,698,582**	**(668,840)**
Non cash flow to profit		
Depreciation and amortization	580,467	121,648
Shares and option expense	30,392	1,781,824
Translation reserve	(263,470)	221,593
Changes in assets/liabilities		
Decrease/(increase) in trade and other receivables	613,353	(6,270,589)
(Increase)/decrease in prepayments and other assets	(498,632)	108,844
Decrease/(increase) in inventories	66,100	(635,424)
Decrease/(increase) in deferred tax assets	358,314	344,106
Increase/(decrease) in trade payables and accruals	4,362,409	(2,389,442)
Decrease/(increase) in financial & other liabilities	(6,280)	74,856
Increase/(decrease) in provisions	160,492	20,198
Decrease/(increase) in tax payables	(537,239)	(277,454)
Cash flow used in operating activities	**7,564,488**	**(7,568,680)**

NOTE 25 - SHARE-BASED PAYMENTS

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

The Group has recognised $30,392 option expense for the twelve months period to 31 December 2019 (FY2018 (6 months): $1,781,124).

(a) Share option plan – 65m@$0.105

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.

All of these 65 million share options have been exercised at the period ended 31 December 2019.

(b) Share option plan – 10m@$1.350

On 25 September 2019, the Group established a share option plan to issue 10 million performance options to PET Chinese employees. The exercise price was $1.35. All of these options were performance options and have lapsed as performance criteria was not met. The key terms and conditions related to the grants under this plan were as follows:

Grant date	No. of instruments	Vesting conditions	Contractual life of options
Options granted to PET Chinese employees			
- On 25 September 2019	10,000,000	- PET China record sales (before Chinese VAT) achieved Rmb70 million for the period from 1 September 2019 to 31 December 2019 - Remain employed beyond the vesting date	1 year
Total share options	**10,000,000**		

All of these 10 million share options have lapsed at the period ended 31 December 2019 as the vesting conditions were not achieved.

(c) Share option plan – 1.5m@$1.250 & 1.5m@$1.350

On 27 November 2019, the Group established a share option plan to offer 3 million performance options to the Chief Executive Officer. The exercise prices are $1.25 for 1.5 million performance options and $1.35 for another 1.5 million performance options. The key terms and conditions related to the grants under this plan are as follows:

Grant date	No. of instruments	Vesting conditions	Contractual life of options
Options granted to Chief Executive Officer			
- On 27 November 2019	1,500,000	- PET group record sales not less than $120 million for the period from 1 January 2020 to 31 December 2021 - Remain employed beyond the vesting date	2 years
	1,500,000	- PET group record sales not less than $200 million for the period from 1 January 2020 to 31 December 2022 - Remain employed beyond the vesting date	3 years
Total share options	**3,000,000**		

NOTE 25 - SHARE-BASED PAYMENTS (continued)

(d) Share option plan – 25m@$1.000

On 3 December 2019, the Group established a share option plan to offer 20 million performance options to PET Chinese employees and 5 million to PET International (excluding China) employees. The exercise price is $1.00. The key terms and conditions under this plan are as follows:

Grant date	No. of instruments	Vesting conditions	Contractual life of options
Options issued but not granted to PET Chinese employees			
- On 27 November 2019	 3,000,000 + 4,000,000 + 3,000,000 + 3,000,000 + 7,000,000	For the period from 1 January 2020 to 31 December 2020, PET China record sales (before Chinese VAT): - Not less than $40 million; - More than $50 million but less than or equal to $60 million; - More than $60 million but less than or equal to $70 million; - More than $70 million but less than or equal to $80 million; - More than $80 million. Remain employed beyond the vesting date	1 year
Total share options	**20,000,000**		

Grant date	No. of instruments	Vesting conditions	Contractual life of options
Options issued but not granted to PET International employees			
	 1,500,000 + 1,500,000 + 2,000,000	For the period from 1 January 2020 to 31 December 2020, PET international record sales: - More than $15 million but less than or equal to $20 million; - More than $20 million but less than or equal to $25 million; - More than $25 million. Remain employed beyond the vesting date	1 year
Total share options	**5,000,000**		

For China and International team options, the allocation of options to these employers will be based on their performance over the vesting period. This will be allocated at the discretion of the Board based on the performance of the team and individual. Therefore, while these are issued, grant date has not been achieved.

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

All options are to be settled by the physical delivery of shares. 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 lapsed when specified conditions attached to the options are not met.

(e) 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		
	31 Dec 2019	30 June 2018	30 June 2017
Share option plan – 65m@$0.105			
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%	-
Share option plan – 1.5m@$1.250 & 1.5m@$1.350			
Grant date on 27 November 2019			
Fair value at grant date	$0.2542	-	-
Share price at grant date	$0.9400	-	-
Exercise price	$1.2500	-	-
Expected volatility	50%-60%	-	-
Expected life	765 Days	-	-
Risk-free interest rate	0.65%	-	-
Grant date on 27 November 2019			
Fair value at grant date	$0.2794		
Share price at grant date	$0.9400		
Exercise price	$1.3500		
Expected volatility	50%-60%		
Expected life	1,130 Days		
Risk-free interest rate	0.65%		

NOTE 25 - SHARE-BASED PAYMENTS (continued)

(f) Reconciliation of outstanding share options

The following is a table reconciling the movements of share options during the twelve months ended 31 December 2019:

	12 months ended 31 December 2019		6 months ended 31 December 2018	
	Number of options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
	No.	$	No.	$
Outstanding at 1 July	33,500,000	0.105	65,000,000	0.105
Granted	13,000,000	1.338	-	-
Issued but not granted	25,000,000	1.000	-	-
Vesting conditions not met / lapsed	(10,000,000)	1.350	-	-
Exercised	(33,500,000)	0.105	(31,500,000)	0.105
Vested options not exercised	-	-	(33,500,000)	0.105
Outstanding at 31 December	**28,000,000**	**1.032**	-	-
Exercisable at period end	-	-	**33,500,000**	**0.105**

For China and International team options, the allocation of options to these employers will be based on their performance over the vesting period. This will be allocated at the discretion of the Board based on the performance of the team and individual. Therefore, while these are issued, grant date has not been achieved.

NOTE 26 - RELATED PARTIES

	12 months ended 31 December 2019	6 months ended 31 December 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)	128,615	57,115
Yolanda Winks – part time employment(2)	45,946	20,688
Martin Schuitema – part time employment(1)	12,223	8,426
Venus Ho – part time employment(3)	33,367	14,300
(c) Transactions with related parties		
Link Traders (Aust) Pty Ltd – rental costs for Sydney office(4)	118,604	58,102
Serenety Holdings Pty ltd – investor relations(5)	140,991	126,107
Contribution to self-managed superannuation funds managed by related parties(1), (5) & (6)	69,357	39,338

(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) related party of Laurence Freedman
(6) related party of Brenda Shanahan

NOTE 27 - EVENTS SUBSEQUENT TO BALANCE DATE

A new wholly owned subsidiary, Phoslock Canada Inc., was setup in Canada in February 2020.

In late January 2020, Chinese authorities requested that companies delay re-starting factories after Chinese New Year holiday break, due to the coronavirus.

The Company received permission from the Changxing Government to re-open the factory on 15 February 2020. Production re-commenced on 17 February 2020, some two weeks later than originally scheduled. The Company transported four containers of Phoslock (84 tons) to Shanghai on 19 February 2020 for shipment to Brazil. The coronavirus (COVID-19) has had an impact on the Group's operations and activities subsequent to the end of the year, and is expected to increasingly effect the Group's operations outside of China. PET's International Business was forecast to make up 15% of FY2020 sales.

It is not possible to accurately determine the nature or extent of the impacts or the time over which the Group will be impacted, however it is possible that it will be material to the Group as the effects and consequences are outside the Group's control and are far reaching globally. Based on the current available information, the Directors believe that the Group and Company will remain a going concern.

Other than the impacts of coronavirus Covid-19 set out above, there have been no other subsequent events.

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.

(i) 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.

NOTE 28 - FINANCIAL RISK MANAGEMENT (continued)

			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 2019	%	$	$	$	$	$	$
Financial Assets							
Cash and cash equivalents	0.4%	14,545,689	413,356	-	-	-	14,959,045
Long term deposits	1.4%	26,163	-	-	-	-	26,163
Trade and other receivables	0%	-	-	-	-	17,148,853	17,148,853
Total Financial Assets		**14,571,852**	**413,356**	-	-	**17,148,853**	**32,134,061**
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%	-	-	-	-	17,762,206	17,762,206
Total Financial Assets		**4,903,670**	-	-	-	**17,762,206**	**22,665,876**

			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 2019	%	$	$	$	$	$	$
Financial Liabilities							
Trade and other payables	-	-	-	-	-	6,476,976	6,476,976
Total Financial Liabilities	0%	**-**	**-**	**-**	**-**	**6,476,976**	**6,476,976**
31 December 2018	%	$	$	$	$	$	$
Financial Liabilities							
Trade and other payables	0.7%	-	-	-	-	2,114,567	2,114,567
Total Financial Liabilities	0%	**-**	**-**	**-**	**-**	**2,114,567**	**2,114,567**

	As at 31 December 2019	As at 31 December 2018
Financial liabilities are expected to be paid as follows:	$	$
Less than 6 months	6,476,976	2,114,567
6 months to 1 year	-	-
1-5 years	-	-
	6,476,976	**2,114,567**

(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 2019, 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 2019	As at 31 December 2018
	$	$
Change in profit		
- Increase in interest rate by 1%	149,590	48,781
- Decrease in interest rate by 1%	(149,590)	(48,781)
Change in equity		
- Increase in interest rate by 1%	149,590	48,781
- Decrease in interest rate by 1%	(149,590)	(48,781)

Foreign Currency Risk and Sensitivity Analysis

As at 31 December 2019, the effect on profit and equity as a result of changes in the value of the Australian Dollar to Renminbi on RMB sales (86% of total sales); (87% in FY2018 (6 months)) with all other variables remaining constant is as follows:

	As at 31 December 2019	As at 31 December 2018
	$	$
Change in profit		
- Increase in foreign exchange rate by 10%	10,078,813	3,878,858
- Decrease in foreign exchange rate by 10%	(10,078,813)	(3,878,858)
Change in equity		
- Increase in foreign exchange rate by 10%	10,078,813	3,878,858
- Decrease in foreign exchange rate by 10%	(10,078,813)	(3,878,858)

As at 31 December 2019, 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 (11% of total sales); (10% in FY2018 (6 months)) with all other variables remaining constant is as follows:

	As at 31 December 2019	As at 31 December 2018
	$	$
Change in profit		
- Increase in foreign exchange rate by 10%	186,340	68,618
- Decrease in foreign exchange rate by 10%	(186,340)	(68,618)
Change in equity		
- Increase in foreign exchange rate by 10%	186,340	68,618
- Decrease in foreign exchange rate by 10%	(186,340)	(68,618)

As at 31 December 2019, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the Euro on Euro sales (2.3% of total sales); (0.6% in FY2018 (6 months)) with all other variables remaining constant is as follows:

	As at 31 December 2019	As at 31 December 2018
	$	$
Change in profit		
- Increase in foreign exchange rate by 10%	35,043	3,574
- Decrease in foreign exchange rate by 10%	(35,043)	(3,574)
Change in equity		
- Increase in foreign exchange rate by 10%	35,043	3,574
- Decrease in foreign exchange rate by 10%	(35,043)	(3,574)

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 (6 months): Nil)

Directors' Declaration

Phoslock Environmental Technologies

In the Directors' opinion:

1. the consolidated financial statements and notes, as set out on pages 30 to 63, and the remuneration report on pages 18 to 22 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 2019 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 24th day of March 2020
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 2019 and of its financial performance for the year 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 2019
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year end or from time to time during the financial year.

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.

Independent Auditor's Report

KPMG

Key Audit Matters

The ***Key Audit Matters*** we identified are:

- Share-based payments
- Revenue recognition

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.

These matters were 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 these matters.

Share-based payments

Refer to Note 25 to the Financial Report (AUD $30,392)

The key audit matter	How the matter was addressed in our audit
We focused on share-based payments remuneration expense as a key audit matter due to the complexity of accounting for the performance based share option plans and resulting risk of interpretational differences against principles based criteria contained in accounting standards. There were 38,000,000 performance options issued to various employees, consultants and teams during the year, each with individual varying terms and conditions. These conditions necessitated senior team member involvement in assessing complex judgements made by the Group such as grant date, performance start date, vesting date, vesting conditions, and achievement of performance hurdles for each individual option recipient. We also focused on other key inputs into the valuation model used by the Group to determine the grant date fair value such as risk free rate, relevant share prices and volatility rates. We involved valuation specialists and accounting specialists to supplement our senior audit team members in assessing this key audit matter.	Our procedures included: • Reading the terms of the share option plans and evaluating the appropriateness of the accounting treatment under criteria contained in accounting standard AASB 2 Share-based payments. We focused on the Group's interpretation of grant date, determining whether grant date was achieved in the year ended 31 December 2019, performance start date, vesting dates and vesting conditions. • Vouching the share options granted in 2019 to underlying documentation including option certificates and employment contracts. • Involving our valuation specialists in assessing the key assumptions used in the valuation model, including the risk free rate, relevant share prices of the Company and volatility rates reflecting likely share price movements over the life of the option. We compared these to available market data of the Company. • Involving our accounting specialists in assessing the Group's judgements for grant date, performance start date, service period, vesting date and vesting conditions in accordance with the accounting standards by identifying key terms and conditions from the provisions of the share certificates and other documentation provided to employees in the relevant teams. We compared this to criteria such as the employee's start date with the Company and current service records. • Evaluating the non-market performance hurdles contained within the share option plan for consistency with the Group's current year performance.

KPMG

	• Recalculating current year share-based compensation expense for a sample of employees for whom the grant date is achieved, using underlying offer letters, including relevant terms and conditions, and third party valuation reports obtained by the Group. This was also compared to the assessments performed by our specialist. • Assessing the Group's disclosures as required by AASB 2 for share-based payments, reflect underlying agreements as tested by us above and our knowledge of the share based payment arrangement, including for those employees where grant date was not achieved.

Revenue recognition	
Refer to Note 2 Revenue (AUD $25,112,831)	
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 significance 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 (97.40% of total revenue for the 12 months ended 31 December 2019).	Our procedures included: • For each significant international location, we selected samples of revenue transactions from sale of goods records. We checked these transaction to underlying documentation including 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 2019 and January 2020. 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 this 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 year ended 31 December 2019, 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 18 to 22 of the Directors' report for the year ended 31 December 2019.

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

KPMG

KPMG

SaraLlain

Sarah Cain

Partner

Melbourne

24 March 2020

Shareholder Information

The shareholder information set out below was applicable as at 17 April, 2020.

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	702	351,708	0.06%
1,001 to 5,000	1,645	4,341,619	0.74%
5,001 to 10,000	989	7,196,867	1.22%
10,001 to 100,000	2,619	81,973,157	13.92%
100,001 to 100,000,000	652	495,128,343	84.06%
Total	**6,607**	**588,991,694**	**100.00%**

The number of shareholders holding less than a marketable parcel ($500) of shares is 909 (653 shareholders)

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	69,183,914	11.75%
JP Morgan Nominees Australia Pty Limited	2	26,520,319	4.50%
ZZL Pty Ltd	3	25,000,000	4.24%
Citicorp Nominees Pty Limited	4	21,262,403	3.61%
Evan Clucas	5	14,800,280	2.51%
UBS Nominees Pty Ltd	6	13,333,043	2.26%
Sail Ahead Pty Ltd	7	9,546,500	1.62%
HSBC Custody Nominees (Australia) Limited	8	8,909,867	1.51%
Lesweek Pty Ltd	9	8,538,181	1.45%
Newvest Pty Ltd	10	6,099,860	1.04%
National Nominees Pty Ltd	11	5,680,911	0.96%
Tingshan Liu	12	5,563,120	0.94%
Kyle Passmore	13	5,527,500	0.94%
Jian Deng	14	5,270,000	0.89%
David Colbran	15	5,115,575	0.87%
Quizete Pty Ltd	16	5,025,000	0.85%
Andrew Dayney	17	5,000,000	0.85%
Paul Cayzer	18	4,879,483	0.83%
Sharky Holdings Pty Ltd	19	4,800,000	0.81%
Mario Spiranovic	20	4,786,827	0.81%
Total		**254,842,783**	**43.27%**
Total Shares Issued		**588,991,694**	**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	69,183,914	11.75%

E. Unquoted securities

	Number of Options	Number of Option Holders
Total number of unquoted options outstanding as at 17 April, 2020	28,000,000	31

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

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