PHOSLOCK ENVIRONMENTAL TECHNOLOGIES LIMITED
ABN 88 099 555 290
ANNUAL REPORT – 31 DECEMBER 2021

Annual Report 2021

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CONTENTS

CORPORATE DIRECTORY

DIRECTORS
David Krasnostein AM – Chairman
Brenda Shanahan AO
Lachlan McKinnon
Barry Sechos
Bob Prosser

COMPANY SECRETARY
Matthew Parker

NOTICE OF ANNUAL GENERAL MEETING
The details of the annual general meeting of Phoslock Environmental Technologies Limited are: 27 May 2022. Notification of the time and venue for the meeting will be released separately

REGISTERED OFFICE
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650 Chapel Street
South Yarra, VIC 3141

PRINCIPAL PLACE OF BUSINESS
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650 Chapel Street
South Yarra VIC 3141

SHARE REGISTER
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Pty Limited
Level 3, 60 Carrington Street
Sydney, NSW 2000 Australia
Phone: +61 2 8234 5000

AUDITOR
ShineWing Australia
Level 10
530 Collins Street
Melbourne VIC 3000
Phone: +613 8635 1800

STOCK EXCHANGE LISTING
Phoslock Environmental Technologies Limited shares are listed on the Australian Securities Exchange (ASX code: PET)

WEBSITE
www.phoslock.com.au

World Leaders in Water Remediation

We are an Australian company that seeks to improve water quality across the globe. Our international community of scientists and water specialists strive for cleaner water through the use of innovative technologies.

CHAIRMAN'S LETTER

Dear Shareholder,

This past year at PET has been dominated by both continuing challenges and positive renewal. When I was appointed Chair in May, the quantum and seriousness of the challenges facing the Company were daunting for both directors and management. The fraud and mismanagement that emerged in 2020 has had far reaching impacts on PET's accounts, our listing on the ASX, compliance, management and recruitment, and importantly - our culture. Together with our CEO and CFO, the Board dedicated itself to dealing with these issues and laying the groundwork for renewal.

I am greatly heartened by the progress that has been made. This is a very different company to one I observed early last year. Our new management team in China, Europe, and the USA, along with a senior appointment in Australia, have brought new skills and experience to PET, and a level of enthusiasm and focus that is very gratifying to see. With exciting new ideas and approaches, we expect to see these benefit our operations in 2022.

As Covid starts to recede globally, our team is more able to travel and meet customers and pursue new business. And governments around the world are better able to revisit their other priorities, including mounting environmental issues that have been only worsening during these past two years. The world more than ever needs our first in class product Phoslock® to remediate pollution in many of the lakes and water catchments across the planet. Time and again we have brought back to life these lakes that were choked with algae and unable to support marine life or be used for recreational activities.

With a number of our legacy issues having now been managed, this has freed up more management time to look to the future and redirect their focus and energies on renewal. We have done much of the work in terms of restructuring the business and putting in place processes and other governance standards that ensure these matters cannot recur.

I want to acknowledge the hard work, wise counsel and determination of my fellow directors to restore the Company to its full potential. Barry Sechos joined the Board in January 2021 and Chairs our Remuneration Committee. Bob Prosser joined the Board in March 2021 and agreed to assume the Chair of the Audit and Risk Committee. And my thanks also to Brenda Shanahan for her depth of knowledge and providing us with invaluable continuity over this difficult period.

The Company has provided shareholders with regular and detailed updates on these events, but I believe it is important that we again place on record how these matters evolved and how the Company has responded.

When our new CEO Lachie McKinnon and CFO Matthew Parker joined the Company in January and May 2020, respectively, their early priority was to familiarise themselves with the quality and rigour of the systems and procedures in place at the Company, and, in particular, with respect to our China operations. During that process, potential irregularities were identified which led the internal investigations to clarify and validate those matters. In August 2020 Arnold Bloch Leibler, our external legal counsel, was instructed to retain KPMG forensic to assist with the investigations.

Separately, PET notified the irregularities to KPMG's audit department which undertook additional investigations focusing on potential accounting irregularities, particularly those associated with related parties. KPMG's preliminary findings were subsequently reported to the Board, and it was decided that the Company should seek a trading halt on the ASX and then request a suspension of trading, which came into effect on 21 September 2020. The suspension ensured the Company's shares were not being traded while the Company continued with the investigations and attempted to quantify the impact of irregularities.

The Company also engaged global corporate finance consulting group FTI in Beijing to provide independent consulting support for our China business. FTI assisted with the ongoing management of the China business on an interim basis, and, in co-operation with Arnold Block Leibler, undertook a forensic review focusing on the Chinese manufacturing operations. This laid the groundwork for reconstructing our financials with the level of integrity necessary for our external auditors to complete their work.

As a result of its extensive investigations, PET identified false accounting across both its China sales organisation and in relation to its China factory operations. Among other matters, it was established that invoices had been falsified and fictitious transactions had been documented with vendors who did not exist or who had provided no service or product to the Company.

To assist with the gathering of evidence, PET also retained expert IT consultants to retrieve Company records and documents that had been deleted or destroyed. This process was costly and time consuming due to the need to comply with local Chinese regulations relating to moving some of these records and material outside of China. Focusing on a four-year period, the task of creating a true record of what transactions occurred, and the true beneficiaries of various payments that were made, was difficult and took some 10 months to conclude.

In summary, actions taken by the Company have included:

- Accessing Company records and attempting to restore deleted and missing items to the best of our ability;
- reconstructing a set of Company accounts going back five calendar years and covering four years of accounts;
- investigating fraudulent or suspicious transactions and seeking to identify all corporate law issues arising out of irregular conduct;
- conducting a forensic review of manufacturing operations in China, including reviewing PET's compliance with environmental waste disposal and bringing the Company into compliance;
- recalculating our known tax obligations and making good our compliance, including the payment of late fees;
- in so far as we can, tracing all payments to third parties, related parties and staff and determining their legitimacy;
- reviewing all customer contracts and all employment contracts and developing replacement contracts reflecting best practice;
- restructuring our China business, including the recruitment of a trusted and skilled management team;
- recruiting skilled management and sales people to support our global operations;
- tightening all financial controls;
- replacing KPMG as the Company's auditors with ShineWing Australia;
- cooperating with the Australian Federal Police ("AFP")
- renewing the Board of Directors and strengthening corporate governance, including the development of a complete set of Company policies in line with best practice and bringing remuneration and incentive schemes up to date and in accordance with best practice.

The process to understand and address these matters, to document them, and have them forensically examined to enable an assessment of any subsequent impact has required significant resources. Related costs incurred in the 2021 financial total over $4m. While this has been a drain on the Company's energy and finances, the Board and current management have been determined to do everything possible to restore our operations, financial accounts, management, compliance and integrity.

In dealing with these past challenges, we have adopted a policy of full and open disclosure and cooperation with the relevant regulators and key stakeholders. As indicated in our November Announcement, the Company self-reported the suspected fraud and mismanagement issues identified by current management and entered into a cooperation agreement with the Australian Federal Police ("AFP"). The Company continues to proactively progress these matters and engage cooperatively with the AFP.

The November Announcement also noted that the Company was "continuing to investigate potential claims against certain individuals. . .with the aim of having the relevant parties held accountable for their actions. . .we intend to take legal action against those responsible for the fraud, mismanagement and gross negligence that we have found and that have resulted in loss and damage to the Company. We are in the final stages of examining the viability of those claims. We will update you with further information as soon as we confirm that we have viable claims, and proceedings are commenced. We would like to emphasise that any action we do take will be taken with strong regard to costs – we will not spend money unless it is justified."

In the period since November, the Company has continued to progress this examination, and expects to make an announcement regarding the filing of proceedings within the next 2-3 months.

We are now at a point where we believe we have taken all reasonable steps to establish what occurred, share this with our shareholders, regulators and key stakeholders, and to place the business on a sound footing. The new Board and management have confronted these difficult issues head-on and with a determination to have them fully addressed.

The Board is extremely grateful to both Lachie and Matt for their integrity, diligence and their willingness to stay the course and work through these challenges for the benefit of the shareholders. Their hard work in what has been a long and stressful period, is now paying off as we have a far better picture of what occurred and have closed the door on a number of issues.

Our ultimate goal is to deliver audited accounts and allow our shares to start trading again on the ASX. Relisting has been an important priority for the Board and management. Recently, the Company met with representatives of the ASX to discuss this matter and to seek some additional clarity on the steps necessary to achieve relisting. Following those conversations, the pathway to relisting involves satisfying ASX in relation to two key requirements.

Firstly, to submit statutory accounts without audit qualifications on opening balances. In anticipation of this requirement, the Board took the decision to have this year's first half financials audited – rather than just reviewed, as is typically the case for half year numbers – to enhance our ability to provide a set of audited accounts for the second half of the year to assist in our discussions with ASX in relation to relisting.

The second ASX requirement to relisting involves the ASX being satisfied that the Company has taken all reasonable measures to ensure shareholders are fully informed in relation to all relevant matters concerning the Company. The November Announcement explained in detail the issues impacting the Company. This was well received and enabled us to share the history and many of the issues that the Company has been dealing with.

While there is still work to be done, and various outstanding matters to be resolved, much of the work has now been completed. The Board and management are now focussed on the future and ensuring PET achieves its full potential as a global leader in water remediation.

Yours Sincerely

DAVID KRASNOSTEIN AM
CHAIRMAN

MANAGING DIRECTOR AND CEO'S REPORT

Dear Shareholders,

While the issues in China and COVID impacts continued to weigh on the business during 2021, we also completed critical restructuring and business reviews and strengthened our global commercial operations. We completed the year with positive sales momentum, including the contracting and completion of our largest project in Europe.

Our response to the mismanagement and fraud issues has been comprehensive. Important changes have been made to our financial reporting processes, delegated authority procedures and risk management framework. Our business in China has been restructured, with new management and a new business and marketing plan that will enable us to pursue and secure opportunities in this market.

New commercial leads were appointed in other regions to support our growth and diversification strategy, with new leads being generated and PET securing the opportunity to tender for an increasing number of projects in the Americas, Europe and Asia Pacific.

The travel restrictions and funding diversions related to the continuing COVID pandemic significantly impacted our business in 2021. Despite these impacts, PET continued to build awareness of its product and technology offering and was successful in securing and completing remediation projects in all of our targeted regions.

In China, ANZ , USA , Europe and South America, a number of Phoslock® treatments were applied throughout 2021,highlighting the importance and early success of our geographic diversification strategy. Of particular note was the Kraslingse Plas treatment for the City of Rotterdam in the Netherlands. This project was the largest project that PET has undertaken in Europe at over 1000 tonnes and was hugely successful in terms of application method and result. It will provide an excellent platform for building the PET business throughout Europe where we have many marketing activities underway.

A number of projects commenced during 2021 will be ongoing treatments that will provide annuity income as part of our broader strategy. Many new opportunities have also been identified across all our targeted geographies and I expect many of these leads to result in significant treatments in 2022 and beyond.

In the US, towards the end of 2021, we made the decision to offer products throughout a wider distribution network. This has created a new level of excitement throughout the customer base and should create more product sales and a stronger footprint for PET in this very valuable market.

In Canada work continues with securing our registration and despite this, considerable interest continues to be shown in Phoslock® by Canadian authorities assessing lake remediation options.

A detailed review of the Company's manufacturing and supply chain requirements was completed during the period, with the outcome of the review to be announced in the near future. The review focused on options for strengthening the Company's supply chain and identifying options for an expanded manufacturing base to complement the existing production capability in China. Our Supply Chain management has been strengthened with the appointment of Simon Greaves to this role. Simon brings a wealth of experience to this critical function.

A review of our research and development program – including investment criteria and priority projects – was also concluded during 2021. Clear criteria have been established to govern R&D related investment, ensuring that projects are aligned with the Company's growth and expansion objectives. There has been considerable progress in these areas with a number of potential technologies being evaluated for commercialisation in the near future.

Our technical capabilities have been strengthened with the appointment of Dr Kate Waters-Hart to the role of Group Manager, Aquatic Science. This role oversees and coordinates all the science behind our products, applications, and data management. Along with customer engagement and application services, the seamless delivery of the scientific requirements for each project is essential in reinforcing PET as the trusted partner of choice to remediate and manage fresh water in our target markets.

Finally, a review was undertaken focusing on people, performance and culture. Given the extensive changes over recent years, it is important that PET builds a performance-based culture that supports and rewards our employees, while ensuring that our customers have an exceptional experience and are presented with outcomes that exceed their expectations.

The market for our products and services continues to grow, with water quality issues likely to be prioritised as COVID impacts begin to recede.

We approach 2022 with a renewed enthusiasm, a focused growth strategy and a team of capable and committed people.

Yours faithfully

LACHLAN MCKINNON
MANAGING DIRECTOR AND CEO

DIRECTORS' REPORT

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Phoslock Environmental Technologies Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 31 December 2021.

DIRECTORS

The following persons were directors of Phoslock Environmental Technologies Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

David Krasnostein AM
Chairman (appointed on 25 May 2021) and Non-Executive Director (appointed on 5 April 2021)

Brenda Shanahan AO

Lachlan McKinnon

Barry Sechos (appointed on 1 February 2021)

Bob Prosser (appointed on 5 April 2021)

Laurence Freedman AM (retired on 25 May 2021)

PRINCIPAL ACTIVITIES

The principal activities of the Group during the period were selling and marketing of the patented product Phoslock® and providing design, engineering and project implementation solutions for water related projects and water treatment products to clean up lakes, rivers, canals, wetlands and drinking water reservoirs. The Group devotes significant resources to the evaluation and development of new water treatment products and technologies through in-house development, licensing arrangements or acquisition.

DIVIDENDS

There were no dividends paid, recommended or declared during the current or previous financial year.

REVIEW OF OPERATIONS

The loss for the Group after providing for income tax amounted to $3,937,000 (31 December 2020: loss of $25,492,000).

	Consolidated	
	31 Dec 2021 $'000	31 Dec 2020 $'000
Revenue	6,297	6,878
Net Operating Profit/(Loss) after Tax ('NPAT')	(3,937)	(25,492)
Add: income tax (benefit)/expense	-	(272)
Add: Finance costs	61	204
Add: Impairment/(reversals of impairment) of receivables	(2,441)	10,935
Add: Impairment of assets	1,631	7,381
Add: Share-based expense (reversal)/expense	-	(30)
Add: Foreign exchange losses	129	67
Less: Interest revenue	(92)	(106)
Less: Gain on remeasurement of lease liabilities	(3,247)	-
Underlying Earnings Before Interest and Taxes ('Underlying EBIT') *	(7,896)	(7,313)

* Underlying EBIT is a financial measure which is not prescribed by Australian Accounting Standards ('AAS') and represents the profit or loss under AAS adjusted for the add back of income tax, finance costs and certain non-cash income and expense items that are deemed to not have an ongoing effect to the underlying performance of the business. The Company believes that presenting Underlying EBIT provides a better understanding of its financial performance by facilitating a more representative comparison of financial performance between financial periods.

Operating results

Revenue for the period was $6,297,000 down 8.4% on the $6,878,000 generated in the prior corresponding period. Consistent with statements made at the first half of 2021, the business continued to face headwinds during the year as a result of COVID-related impacts which contributed to project delays and the continued priority given by government authorities to managing COVID related health initiatives.

Gross profit was $3,586,000 for the full year (Full Year to 31 December 2020: $4,103,000). The gross profit margin was 57% for the full year (Full Year to 31 December 2020: 60%). The gross profit margin was slightly down on the prior corresponding period as a result of higher freight costs in the period partially offset by favourable pricing, particularly in Europe, and slightly lower project application costs.

Underlying EBIT for the year was a loss of $7,896,000 compared to a loss of $7,313,000 in the prior corresponding period. Lower sales volume / revenue flowing to gross margin was offset with lower operating expenses in the period. Following on from commentary at 30 June 2021, operating expenses were lower in the reporting period, however they remained relatively high as a result of continued expenditure on interim management and restructuring costs in China, ongoing legal expenses as a result of the fraud and mismanagement investigations, higher auditing costs consistent with the Board's strategy to enable the Company to lift the suspension of trading on the ASX and consultancy costs relating to reviews of the R&D program and the Company's manufacturing/supply chain strategy. These reviews are well advanced.

NPAT for the Group for the full year amounted to a loss of $3,937,000; (Full Year to 31 December 2020 restated: loss of $25,492,000). The prior corresponding period included a number of non-cash adjustments to receivables, inventory, plant property & equipment and right of use assets (see notes to the accounts for FY 2020). As foreshadowed in Subsequent Events in the 2020 full year accounts, the 31 December 2021 reporting period includes non-cash adjustments to lease liabilities as a result of the Group signing a lease modification with its landlord in relation to the Zheijang Phoslock Environmental Technologies Ltd (China)('PETZ') factory. The modification reduced the lease term, square footage and overall cost and is part of the ongoing effort to right-size the business. The value of this adjustment was $3,247,000.

As reported in early January 2022, the Company secured a settlement in relation to all outstanding receivables involving a former customer and related party in China, Beijing BHZQ Environmental Engineering Technology Co. Ltd ('BHZQ'). The settlement concluded all arbitration and court cases for claims and counterclaims initiated by PET or BHZQ against one another. Further details on this matter can be found below under the sub heading Impairment of Receivables.

The 2021 year includes the receipt of the Phase 1 payment ($536,000) relating to works completed at Xingyun Lake in China. Given circumstances and uncertainties at the time, the receivable relating to the full payment for this work was impaired in the first half of the 2020 financial year. Although the part-payment was a positive outcome, payment for the balance of the project remains outstanding and the Company is yet to receive written confirmation of the receivable from the customer, or acknowledgment that it is past due, despite several requests to that effect.

Consistent with stated inventory accounting policy, within the 2021 period, updates were made to the Group's provision for impairment of finished goods, the details of which can be found in note 12 of these accounts.

Within the year, the business added to existing tax losses in Australia.

Cash Flows

Operating Cash Flow for the full year was a cash outflow of $6,926,000 (Full Year to 31 December 2020: outflow of $12,554,000), representing an improvement of $5,628,000 during the year.

Cash payments from customers for the year were $8,766,000 (Full Year to 31 December 2020: $6,130,000). Cash payments to suppliers and employees for the full year were $15,469,000 (Full Year to 31 December 2020: $19,568,000). Receipts from customers came primarily from the previously announced contract to remediate Kralingse Plas Lake, in the city of Rotterdam, The Netherlands. The business also secured payments from the Gold Coast Council, Brazil and smaller contracts in China. Continued cash outflows associated with due diligence on the previously announced manufacturing footprint analysis and R&D activities were incurred in FY 2021. Despite these outflows, the decrease in cash outflows vs the prior period relates primarily to lower employee payments and lower manufacturing related activity. The prior period included higher spending in inventory levels as a result of the manufacturing plant building safety stocks as insurance against possible COVID-related shutdowns. The 2021 period also included higher direct and indirect tax payments as the Company continued to resolve legacy tax issues identified in the accounting investigations.

New plant, equipment, and intangibles for the full year 2021 totalled $51,000. This was mainly for the Chinese manufacturing facilities and fit out of the new Melbourne offices in South Yarra.

Financial position

Current assets of the Group as at 31 December 2021 were $29,836,000 made up of cash ($22,991,000); trade and other receivables ($2,781,000) and inventories ($3,305,000), financial assets of ($126,000) and other assets ($633,000).

Current liabilities of the Group as at 31 December 2021 were $3,825,000 made up of trade / other payables, contract liabilities, lease liabilities, employee liabilities and direct/indirect taxes payable.

The net assets of the Group were $25,817,000 as at 31 December 2021 (31 December 2020: $29,647,000), a decrease of $3,830,000 from 31 December 2020. Despite the net operating cash outflow of $6,926,000 during the year, it was partially offset by the revised lease adjustments and restatement of receivables detailed above.

As a result, cash and cash equivalents decreased to $22,991,000 as at 31 December 2021 (31 December 2020: $30,441,000).

The full year financial statements have been prepared on a going concern basis of accounting, which assumes, the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business, supported by the Group's strong cash position (as above) and net current asset position of $26,011,000 as at 31 December 2021 (2020: $32,514,000). At balance date, the Group had no external loan facilities.

Whilst the Group expects to utilise some of its available cash reserves to support its operating activities in the short term, and settle amounts relating to external advisor costs arising from the ongoing litigation as a result of the Board investigation, the Group's current cashflow forecasts indicate that the cash held by the Group will be sufficient to support its operating activities and pay creditors as and when they fall due for no less than 12 months from the date of this Directors' Report.

Impairment of receivables

On 10 January 2022, the Group obtained a $1,800,000 settlement of outstanding receivables and recognised a reversal equal to the this amount as at 31 December 2021 (31 December 2020: loss of $2,121,000). The amount was received in two equal instalments in mid-January 2022 and mid-February 2022.

As noted in the 31 December 2020 financial statements, the Group identified an amount of $349,000 in accounts payable, which related to a contractual obligation to pay a third party connected with transactions under investigation. The contract was characterised as labour services connected to the Xingyun Lake Project. Due to concerns regarding the interdependency of the contracts related to the Xingyun Lake Project, management concluded that the recoverability of outstanding accounts receivable in relation to this contract was uncertain, notwithstanding that the terms of the Xingyun Lake contract did not require payment until 31 March 2021. Management therefore concluded to impair the outstanding balance recognising an allowance for expected credit losses of $6,403,000 as at 31 December 2020 in relation to this contract.

Within the current year, the Company received the Phase 1 payment ($536,000) relating to works completed at Xingyun Lake. The part payment resulted in a partial write back of the impairment provision maintained at 31 December 2020. Although this recent part-payment is a positive outcome, it is for initial work, not the bulk of the project application. The Company is yet to receive written confirmation of the receivable from the customer, or acknowledgment that it is past due, despite several requests to that effect.

At around the same time, the Company extinguished the contractual obligation to pay the third party connected to the Xingyun Lake Project. This resulted in a write back of an accounts payable provision of $349,000 as a credit to the profit or loss account "other income", in accordance with accounting standards.

Notwithstanding the release of the contractual obligation, it remains management's judgment that the recoverability of outstanding accounts receivable for Xingyun Lake continues to be uncertain and the impairment provision remains.

The Company remains in constant contact with Xingyun Lake officials to secure payment. Recently, officials of the lake have made preliminary overtures to reach agreement on a payment plan. These types of overtures in the past have borne little fruit. Should the Lake Officials agree to a payment plan and demonstrate a consistency of payment to the plan, management will assess its judgement on the balance of that receivable in line with the Group policy.

Both of these transactions have been treated as other income items as they are deemed to not have an ongoing affect to the underlying performance of the business. Management believes that presenting Underlying EBIT provides a better understanding of its financial performance by facilitating a more representative comparison of financial performance between financial periods.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 6 January 2021, a new US subsidiary, Phoslock Inc. was incorporated.

There were no other significant changes in the state of affairs of the Group during the financial year.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Since 31 December 2021, the Group's operations have continued to be impacted by the COVID-19 pandemic and related Government actions imposed in key markets to slow the spread of the virus. As the global outbreak of COVID-19 continues to progress and evolve, it is extremely challenging to predict the full extent and duration of its impact on the Group's business activities.

No other matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Information on likely developments in the operations of the Group and the expected results of operations is included in the Chairman's letter, Managing Director and CEO's Report and Review of Operations section in the Directors' Report.

ENVIRONMENTAL REGULATION

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

The Group commits to comply with all regulations governing the use and application of its water technology products both in Australia and internationally.

Phoslock® has been awarded the North American Drinking Water Certification (NSF/ANSI 60) since 2011. The certification is renewed annually.

BOARD INVESTIGATIONS

On 16 November 2021, PET Chairman, Managing Director and CFO/Company Secretary hosted a webinar to enable an update to shareholders on the progress of the investigation and the pathway to lifting the trading suspension on the ASX. This involved a detailed disclosure of matters arising from the investigation such that the ASX be satisfied that the Company has taken all reasonable measures to ensure shareholders are fully informed in relation to all relevant matters concerning the Company. In particular those matters which led to the suspension of our listing; the potential financial and other impacts of those matters; and the steps being taken by the Company to address those matters.

As detailed in the webinar, substantial work has been undertaken to restructure the business and put in place processes and other governance standards that ensure these matters cannot reoccur.

The shareholder webinar held on 16 November 2021 provided significantly more detail on the matters relating to mismanagement and alleged fraud in respect of the China operations. A full transcript of that webinar is available at the following link: https://www.phoslock.com.au/investor-centre/presentations/.

PET management is committed to keeping shareholders fully informed on developments.

EMPLOYEE SHARE OPTIONS

As of 31 December 2021, the long term incentive schemes of the Company conform with best practice and aligned with shareholders' interests as a result of the full review of the long term incentive schemes of the Company commissioned by the Chairman of the Nomination and Remuneration Committee.

INFORMATION ON DIRECTORS

Name	**David Krasnostein AM**
Title	Non-Executive Chairman (appointed on 25 May 2021) and Non-Executive Director (appointed on 5 April 2021)
Qualifications	Juris (Hons), LLB, LLM
Experience and expertise	David brings extensive legal and business experience across a distinguished corporate career and board representation. Formerly General Counsel and Group Director, Strategic Planning and Development at Telstra; Group Chief General Counsel at National Australia Bank; and Chief Executive Officer of MLC Private Equity (one of Australia's oldest and largest private equity firms with over $3 billion invested globally during his tenure), David practised law in the USA at the Wall St firm of Sullivan & Cromwell and as a partner of the Chicago law firm, Sidley Austin.
Other current directorships	None
Former directorships (last 3 years)	Chairman of Qualitas Group, and Chairman, Director Arch Finance Pty Ltd
Special responsibilities	Chairman of the Board, Member of Nomination Committee, Remuneration Committee and Audit Committee
Interests in shares	45,470
Interests in options	None

Name	**Brenda Shanahan AO**
Title	Non-Executive Director
Qualifications	B. Comm, Fellow of AICD Hon. PHD Swinburne University
Experience and expertise	Brenda is a former member of the Australian Stock Exchange Ltd and has some two decades of experience as a non-executive director on Boards of ASX listed and unlisted domestic and international companies, including currently Clinuvel Pharmaceuticals Ltd (ASX:CUV), DMP Asset Management Ltd., S G Hiscock Ltd., and Chair of ACMD Ltd. She is a former director of Equitilink Ltd., Challenger Financial Group Ltd., and Bell Financial Group Ltd. She also serves on many philanthropic organisations and Advisory Groups
Other current directorships	Clinuvel Pharmaceuticals Ltd, DMP Asset Management Ltd, the Chair of the Aitkenhead Centre for Medical Discovery and Director of Rock Art Australia Ltd
Former directorships (last 3 years)	Bell Financial Group Ltd and St Vincent's Medical Research Institute
Special responsibilities	Chairperson of Nomination Committee, Member of Remuneration Committee
Interests in shares	1,506,500 ordinary shares
Interests in options	None

Name	**Lachlan McKinnon**
Title	Executive Director and CEO
Qualifications	Bachelor of Agricultural Science, Graduate Diploma of Business (Agribusiness), Master of Enterprise and Harvard Business School Short Course - Agribusiness
Experience and expertise	Lachlan has worked for Nufarm Limited (ASX: NUF) in various management roles in Australia, Europe and North America since 1994. Nufarm is a leading agricultural chemicals business (FY2018/19 Sales $3.8 billion) with manufacturing and marketing operations based in Australia, New Zealand, Asia, Europe and the Americas. Lachlan has significant overseas sales and marketing experience. He was most recently (2016-19) Country Manager for Canada and Head of Marketing for the Americas. Previously, he has spent four years leading and developing Nufarm's Northern Europe business.
Other current directorships	None
Former directorships (last 3 years)	None
Special responsibilities	Member of Nomination Committee and Audit Committee
Interests in shares	500,000 ordinary shares
Interests in options	3,000,000 options

Name	**Barry Sechos**
Title	Non-Executive Director (appointed on 1 February 2021)
Qualifications	BComm LLB from UNSW.
Experience and expertise	Barry has over 30 years' experience as a director, business executive and corporate lawyer. Barry is a director of the Sherman Group Pty Limited, a privately owned investment company located in Sydney, Australia. Barry is also an executive director of Paddington St Finance Pty Limited, a specialist structured finance company providing R&D Tax Incentive Finance and Mid-Market Corporate Loans to emerging corporations domiciled in Australia and Fulcrum Media Finance Pty Limited, a finance company providing Producer Offset Finance to Australian and New Zealand film production companies. Barry commenced his professional career as a commercial lawyer at the law firm Allen Allen & Hemsley, specialising in banking & finance law at Allens' Sydney office and worked in Allens' Singapore and London offices.
Other current directorships	Regeneus Limited
Former directorships (last 3 years)	Concentrated Leaders Fund Limited
Special responsibilities	Chairman of the Renumeration Committee, Member Nomination Committee and Audit
Interests in shares	None
Interests in options	None

Name	**Bob Prosser**
Title	Director (appointed on 5 April 2021)
Qualifications	MA (Oxf), FCA, MAICD
Experience and expertise	Bob has extensive experience as a director and is a chartered accountant and former partner at PricewaterhouseCoopers (PwC). During his career at PwC, he gained expertise in accounting, audit, transactions, tax, valuation, structuring, commercial legal issues, corporate governance, compliance, strategy and risk across organisations of all sizes and in many industry sectors.
Other current directorships	None
Former directorships (last 3 years)	None
Special responsibilities	Audit and Risk Committee Chairman, Member Nomination Committee and Remuneration Committee.
Interests in shares	None
Interests in options	None

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

COMPANY SECRETARY

Matthew Parker (appointed on 11 May 2020)

Matthew is an experienced finance professional having previously held the position of Group CFO of Private Equity owned portfolio businesses and ASX listed entities. Matthew has also held key finance roles at the Ford Motor Company and Cadbury Schweppes. Prior to joining Phoslock, Matthew was the CFO of GALE Pacific Limited (ASX:GAP). Matthew is a Certified Practising Accountant and holds a Bachelor's degree in Business (Accounting) and Arts (Japanese). He is a registered member of CPA Australia and an affiliate of the Securities Institute of Australia.

MEETINGS OF DIRECTORS

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 31 December 2021, and the number of meetings attended by each director were:

	Full Board		Nomination and Remuneration Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
David Krasnostein AM	8	8	1	1	5	5
Brenda Shanahan AO	10	11	2	2	6	6
Lachlan McKinnon	11	11	2	2	6	6
Barry Sechos	10	10	1	1	5	5
Bob Prosser	8	8	1	1	5	5
Laurence Freedman AM	5	5	1	1	-	-

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

REMUNERATION REPORT (AUDITED)

Letter from the Chairman of Nomination and Remuneration Committee

As our Chairman, David Krasnostein, notes in his Chairman's letter, the past year has been a challenging one for the Company and both the Board and executive management team continue to work hard to address and rectify issues relating to our operations in China and the fraudulent activity and mismanagement identified in 2020.

Progress continues to be made, due in no small part, to the efforts of our executive team, led by our CEO, Lachie McKinnon and our CFO, Matt Parker. Their focus has been not just to identify and rectify the fraud and mismanagement that occurred, but to implement a new compliance regime and risk management framework with a renewed focus on people, performance and culture.

With this performance-based approach in mind, the Board is implementing a remuneration policy that rewards management for positive achievements in re-setting the Company's strategy and implementing the groundwork for positive renewal, as well as ensuring objectives are aligned between executives and shareholders.

Remuneration outcomes

In view of the substantial progress made in reversing the setbacks resulting from the issues relating to our China operations, short-term incentives were paid to the CEO and CFO. In addition, a retention bonus was paid to the CFO in recognition of his extensive work undertaken to address and rectify relevant operational issues and the importance of continuity in that role over this difficult period.

Changes to remuneration

Having received a remuneration strike at our last annual general meeting, we undertook a review and sought independent advice from an external consultant on our executive remuneration structure, as foreshadowed in our previous annual report. The review included working sessions to refresh our executive remuneration strategy which included benchmarking the remuneration quantum and structure for the CEO and CFO.

The review showed that from a remuneration quantum perspective, Phoslock is competitively positioned against our competitors, however, there were opportunities for the Company to adjust our short term incentive structure to align with this critical period of recovery. No changes have been introduced as yet to our long term incentive structure, but proposed changes in this area will be communicated to shareholders ahead of the Company's next annual general meeting and put forward for shareholder approval.

The Board is confident that Phoslock's remuneration policies continue to support the Group's financial and strategic goals, including driving performance through this period of recovery. We are committed to transparency and an ongoing dialogue with shareholders on remuneration. As part of this commitment, we have initiated some changes to the remuneration report to improve the overall format and flow of information. These changes reflect a strong commitment to continuous improvement in our reporting and communication with shareholders.

On behalf of the Board, I invite you to review the full report and thank you for your continued interest and support.

Yours sincerely,

Barry Sechos
Chair of the Nomination and Remuneration Committee

REMUNERATION REPORT CONTENTS

The remuneration report is set out under the following main headings:

- **Details of Key Management Personnel**
- **Principles used to determine the nature and amount of remuneration**
- **Details of Executive remuneration**
- **Consolidated entity performance and link to remuneration**
- **Service agreements**
- **Non-executive directors' remuneration**
- **Statutory and share-based reporting**
- **Additional information**
- **Additional disclosures relating to key management personnel**

DETAILS OF KEY MANAGEMENT PERSONNEL

The remuneration report details the key management personnel remuneration arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The key management personnel (KMP) of the Group consisted of the non-executive directors of the Company, executive directors and senior executives. The table below outlines the KMP of the Group and their movements during FY 2021.

Name	Position	Term as KMP
Non-executive directors		
David Krasnostein AM	Non-Executive Chairman	Appointed 5 April 2021*
Brenda Shanahan AO	Non-Executive Director	Full financial year
Barry Sechos	Non-Executive Director	Appointed 1 February 2021
Bob Prosser	Non-Executive Director	Appointed 5 April 2021
Laurence Freedman AM	Former Non-Executive Chairman	Retired 25 May 2021
Executive director		
Lachlan McKinnon	Executive Director and Chief Executive Officer	Full financial year
Senior executives		
Matthew Parker	Group Chief Financial Officer and Company Secretary	Full financial year*
Nigel Trail	General Manager – Europe and North America	Resigned 31 March 2021
Andrew Winks	General Manager Operations	Full financial year**
Zhaopeng (Jason) Hai	General Manager – China Operations – Changxing Factory	Resigned 16 November 2021
Viktor Li	General Manager – China	Appointed 18 October 2021

* Mr Krasnostein was appointed to the Board on 5 April 2021 and assumed the role of Non-Executive Chairman on 25 May 2021, following the retirement of Mr Freedman.

** Mr Winks retired on 28 February 2022, after the reporting date and before the date this financial report was authorised for issue.

PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation; and
- transparency.

The Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the Group depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The Remuneration Committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the Group. The Remuneration Committee has recently commenced a review of the remuneration of key executives (excluding the CEO and CFO which has been completed) in consultation with external remuneration consultants to ensure objectives are aligned between executives and shareholders.

The reward framework is designed to align executive reward to shareholders' interests. The Board has considered that it should seek to enhance shareholders' interests by:

- having profitable growth as a core component of plan design;
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracting and retaining high calibre executives by providing a total remuneration opportunity sufficient to attract proven and experienced executives, and retain existing executives.

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience, whereby a substantial part of remuneration is contingent on achievement and delivering sustained performance outcomes;
- reflecting competitive reward for contribution to growth in shareholder wealth. This will see a significant proportion of executive remuneration is delivered in the form of equity to ensure executive alignment with shareholder experience; and
- providing a clear structure for earning rewards, such that performance targets are set to reach a challenging level before any payments are made.

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

Use of remuneration consultants

From time to time the Remuneration Committee may seek external guidance from independent remuneration advisers. Any advice provided by external advisers is used as a guide and is not a substitute for consideration of all the issues by each non-executive director of the Remuneration Committee.

During the financial year ended 31 December 2021, the Group engaged BDO Services Pty Ltd (BDO) as independent remuneration advisors to review its existing remuneration policies and provide recommendations on how to improve both the STI and LTI programs. BDO was paid $30,000 as at 31 December 2021 to perform these services.

The following arrangements were made to ensure that the remuneration recommendations were free from undue influence:

- BDO was engaged by, and reported to the Chair of the Remuneration Committee. The agreement for the provision of the remuneration consulting services was executed by the Chair of the Remuneration Committee under delegated authority on behalf of the Board;
- The report containing the remuneration recommendations was provided by BDO directly to the Chair of the Remuneration Committee; and
- BDO was permitted to speak to management throughout the engagement to understand company processes, practices and other business issues and obtain management perspectives, if so required. However, BDO was not permitted to provide any member of management with a copy of their draft or final report that contained remuneration recommendations.

As a consequence, the Board is satisfied that the recommendations were made free from undue influence from any members of the key management personnel.

This advice resulted in proposed changes to short term incentives and the structure of the long term incentive scheme that will be implemented in FY2022. Some elements of the changes will be put forward to shareholders for endorsement and will be implemented following the next annual general meeting of the Company to be scheduled.

Voting and comments made at the Company's 2020 Annual General Meeting ('AGM')

At the 2021 AGM held on 25 May 2021, 58.98% of the votes received supported the adoption of the remuneration report for the year ended 31 December 2020. This resulted in a first remuneration strike. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

EXECUTIVE REMUNERATION

The Group aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits;
- short-term performance incentives;
- share-based payments ('LTI'); and
- other remuneration such as superannuation and long service leave.

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Remuneration Committee based on individual and business unit performance, the overall performance of the Group and comparable market remuneration.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Group and provides additional value to the executive.

Throughout the period, the CFO was under a 12-month restraint, with no pro rata availability. The term of the restraint period commenced on 1 November 2020. The CFO could not be in a resignation notice period during the period of restraint. The amount awarded to the CFO was equal to 50% of base salary.

The short-term incentive ('STI') program is designed to focus performance on drivers of shareholder value within a performance year and by doing so, aligns the targets of the business units with the performance hurdles of executives. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved. KPI's include profit contribution, customer satisfaction, leadership contribution and product management.

The long-term incentive ('LTI') program aims to align executive actions with shareholder interests by developing a sense of 'ownership' in the Company. Performance rights are awarded to executives over a period of three years based on long-term incentive measures. These include increase in shareholder value relative to the entire market and the increase compared to the Group's direct competitors. The Remuneration Committee reviewed the long-term equity-linked performance incentives specifically for executives.

CONSOLIDATED ENTITY PERFORMANCE AND LINK TO REMUNERATION

Remuneration for certain individuals is directly linked to the performance of the Group. A portion of cash bonus and incentive payments are dependent on defined earnings targets being met. The remaining portion of the cash bonus and incentive payments are at the discretion of the Remuneration Committee. Refer to the section 'Additional information' below for details of the earnings and total shareholder return for the last five years.

The Remuneration Committee is of the opinion that the recent effort to improve corporate governance and positive changes to the overall strategy of the business can be attributed in part to the adoption of performance-based compensation and is satisfied that this improvement will continue to increase shareholder wealth if maintained over the coming years.

SERVICE AGREEMENTS

Name	Lachlan McKinnon
Title	Managing Director
Agreement commenced	27 November 2019
Term of agreement	Ongoing - no fixed minimum term
Details	Annual base salary of $498,750 pa
Short-term incentive	30% base salary (maximum) pa subject to achieving a range of KPI's determined by the Board.

Employment contracts for senior executives stipulate a range of one to three-month resignation periods (six months for the Managing Director / Chief Executive Officer and CFO / Company Secretary). 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 (six months for the Managing Director / Chief Executive Officer and CFO / Company Secretary). Termination payments are not payable on dismissal for serious misconduct. In the instance of serious misconduct, the Company can terminate employment at any time.

NON-EXECUTIVE DIRECTORS' REMUNERATION

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Remuneration Committee. The Remuneration Committee may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to the determination of his own remuneration. Non-executive directors do not receive share options or other incentives.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held in 2020, where the shareholders approved a maximum annual aggregate remuneration of $800,000.

STATUTORY AND SHARE-BASED REPORTING

Details of the remuneration of key management personnel of the Group are set out in the following tables.

	Short-term benefits				Post-employment benefits	Long-term benefits	Share-based payments	
31 Dec 2021	Cash salary and fees $	Cash bonus $	Allowance $	Non-monetary $	Super-annuation $	Long service leave $	Equity-settled $	Total $
Non-Executive Directors:								
David Krasnostein AM	88,082	-	-	-	8,725	-	-	96,807
Brenda Shanahan AO	109,621	-	-	-	10,687	-	-	120,308
Barry Sechos**	100,833	-	-	-	-	-	-	100,833
Bob Prosser	79,810	-	-	-	8,037	-	-	87,847
Laurence Freedman AM	58,333	-	-	-	5,542	-	-	63,875
Executive Directors:								
Lachlan McKinnon	498,750	232,500	-	-	25,869	-	-	757,119
Other Key Management Personnel:								
Matthew Parker	363,750	203,500	-	-	26,997	-	-	594,247
Nigel Trail*	94,917	-	-	-	-	(7,838)	-	87,079
Andrew Winks	214,735	-	24,000	-	20,943	2,024	-	261,702
Zhaopeng (Jason) Hai*	121,030	10,315	342	-	26,172	-	-	157,859
Viktor Li**	48,470	10,315	177	-	5,023	-	-	63,985
	1,778,331	456,630	24,519	-	137,995	(5,814)	-	2,391,661

* Represents salaries from 1 January 2021 to the date of resignation.

** Represents salaries from the date of appointment to 31 December 2021.

	Short-term benefits				Post-employment benefits	Long-term benefits	Share-based payments	
31 Dec 2020	**Cash salary and fees $**	**Cash bonus $**	**Allowance $**	**Non-monetary $**	**Super-annuation $**	**Long service leave $**	**Equity-settled $**	**Total $**
Non-Executive Directors:								
Laurence Freedman AM	130,000	-	-	-	13,000	-	-	143,000
Brenda Shanahan AO	100,000	-	-	-	10,000	-	-	110,000
Zhigang Zhang	95,000	-	-	-	9,500	-	-	104,500
Ningping Ma	62,500	-	-	-	6,250	-	-	68,750
Executive Directors:								
Lachlan McKinnon	475,000	-	2,100	-	39,325	-	(30,392)	486,033
Robert Schuitema	1,023,811	-	28,026	-	48,243	40,270	-	1,140,350
Other Key Management Personnel:								
Matthew Parker	220,000	27,500	-	-	19,354	-	-	266,854
Nigel Trail	208,525	-	-	-	16,123	11,879	-	236,527
Andrew Winks	213,950	-	17,250	-	22,170	23,475	-	276,845
Zhaopeng (Jason) Hai	119,727	18,904	-	14,172	15,335	-	-	168,138
Chris Hui	97,467	-	-	-	9,947	-	-	107,414
Tingshan Liu	133,894	-	6,553	-	15,508	-	-	155,955
	2,879,874	46,404	53,929	14,172	224,755	75,624	(30,392)	3,264,366

The proportion of remuneration linked to performance and the fixed proportion are as follows:

	Fixed remuneration		At risk - STI		At risk - LTI	
Name	**31 Dec 2021**	**31 Dec 2020**	**31 Dec 2021**	**31 Dec 2020**	**31 Dec 2021**	**31 Dec 2020**
Non-Executive Directors:						
David Krasnostein AM	100%	-	-	-	-	-
Brenda Shanahan AO	100%	100%	-	-	-	-
Barry Sechos	100%	-	-	-	-	-
Bob Prosser	100%	-	-	-	-	-
Laurence Freedman AM	-	100%	-	-	-	-
Ningping Ma	-	100%	-	-	-	-
Zhigang Zhang	-	100%	-	-	-	-
Executive Directors:						
Lachlan McKinnon	69%	100%	31%	-	-	-
Robert Schuitema	-	100%	-	-	-	-
Other Key Management Personnel:						
Matthew Parker	66%	90%	34%	10%	-	-
Nigel Trail	100%	100%	-	-	-	-
Andrew Winks	100%	100%	-	-	-	-
Zhaopeng (Jason) Hai	93%	89%	7%	11%	-	-
Viktor Li	84%	-	16%	-	-	-
Chris Hui	-	100%	-	-	-	-
Tingshan Liu	-	90%	-	10%	-	-

SHARE-BASED COMPENSATION

Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 31 December 2021.

Options

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
27 November 2019	31 December 2021	31 December 2022	$1.25	$0.254
27 November 2019	31 December 2022	31 December 2023	$1.35	$0.279

Following the finalisation of the FY 2021 results the above options will be cancelled. In both instance the performance condition was not met.

Options granted carry no dividend or voting rights.

There were no options over ordinary shares granted to or vested by directors and other key management personnel as part of compensation during the year ended 31 December 2021.

ADDITIONAL INFORMATION

The earnings of the Group for the five years to 31 December 2021 are summarised below:

	2021 $'000	2020 $'000	2019 $'000	2018 $'000	2017 $'000
Sales revenue	6,297	6,878	19,757	15,707	3,825
Underlying EBIT	(7,896)	(7,313)	345	3,743	(865)
Profit/(loss) after income tax	(3,937)	(25,492)	(1,090)	108	(3,387)

ADDITIONAL DISCLOSURES RELATING TO KEY MANAGEMENT PERSONNEL

Shareholding

The number of shares in the Company held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Ordinary shares					
David Krasnostein AM - Chairman (appointed 25 May 2021) and Non-Executive Director (appointed 5 April 2021)	-	-	45,470	-	45,470
Brenda Shanahan AO	1,506,500	-	-	-	1,506,500
Lachlan McKinnon	500,000	-	-	-	500,000
Barry Sechos (appointed 1 February 2021)	-	-	-	-	-
Bob Prosser (appointed 5 April 2021)	-	-	-	-	-
Laurence Freedman AM (retired 25 May 2021)	69,483,912	-	-	-	69,483,912
Matthew Parker	-	-	-	-	-
Viktor Li (appointed 18 October 2021)	-	-	-	-	-
Andrew Winks (retired 23 February 2022)*	2,699,975	-	-	-	2,699,975
Nigel Trail (resigned 30 March 2021)	3,190,227	-	-	-	3,190,227
Zhaopeng (Jason) Hai (resigned 22 November 2021)	1,200,000	-	-	-	1,200,000
	78,580,614	-	45,470	-	78,626,084

*A. Winks corrected a prior year declaration to include an additional, previously undisclosed, 54,000 shares purchased during the May 2020 share purchase plan.

Option holding

The number of options over ordinary shares in the Company held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
Options over ordinary shares					
Lachlan McKinnon	3,000,000	-	-	-	3,000,000
	3,000,000	-	-	-	3,000,000

Following the finalisation of the FY 2021 results the above options will be cancelled. The performance condition was not met.

This concludes the remuneration report, which has been audited.

PEOPLE, PERFORMANCE AND CULTURE 2021

People, Performance and Culture was one of the three priority areas for review in 2021 alongside Research and Development, and Manufacturing and Supply Chain.

Out of the review, a systemic program for change was developed with people as central to the business strategy.

Diagram 1 – People, Performance and Culture Program integral to PET's strategy

Significant progress was made in 2021, starting with identifying the capabilities needed for the future, recruiting key roles, and engaging the largely new leadership team in PET's renewed aspiration and culture. Progress was also made on the elements highlighted in blue and we continue to work on these elements in 2022 and beyond.

ORGANISATIONAL STRUCTURE - A NIMBLE GLOBALLY NETWORKED TEAM

In mid-2021, all executives and senior leaders' roles were interviewed on their responsibilities as well as their views of the critical capabilities for PET. Insights from these interviews along with the findings of the Research and Development and Manufacturing Supply Chain reviews, as well as progress on expanding commercial presence in key markets enabled us to form a vision of what capability was needed and how it should be arranged to enable:

- access to expertise,
- positive long-term customer relationships,
- nimble locally tailored solutions,
- avoidance of duplication and
- consistency of standards across all geographies.

The vision for PET's way of operating became one of a **nimble, globally networked team** where:

- success from one market is to be seeded in the next,
- global processes encourage and advance creative ideas,
- problems and opportunities are worked on collaboratively,
- people help each other grow and develop, and
- where there is balanced reflection on successes and failures - learnings are shared openly.

ATTRACTING CAPABILITY AND GROWING TALENT

Over 2021 PET has attracted a good blend of technical, commercial and operational experience across water, environmental, chemical, mining, lake management, aquatic and manufacturing industries. Together with existing talent, PET has a tremendous diversity of skills and expertise, making the breadth and depth of talent a competitive advantage.

RENEWED ASPIRATION & CULTURE

Summit Series – Inviting Leadership Imagination and Commitment

With so many new people coming into the leadership team, "re-inducting" ourselves as a business and a team is an important foundation. All PET leaders must share the same view of what we are striving to achieve and co-develop how to get there. We therefore designed a series of 5 on-line summits covering the following topics:

1. Who we are and how we serve – vision mission, culture, operating model and structure
2. Growth strategy – R&D, Partnership, Manufacturing and People
3. Being an advocate for PET as a holistic management partner restoring and protecting fresh-water bodies with nutrient problems – educating decision-makers and their advisors and updating their perceptions
4. Goals, Feedback and Team Processes
5. Policy Framework & Business Processes

Board members were invited to the first session with the new leadership team in December 2021. The remaining 4 series are continuing into the first half of 2022.

Renewed Aspiration

The CEO and MD framed PET's Renewed Aspiration in Summit Session 1 reflecting the key commitments the Chairman outlined at the 2021 Annual General Meeting:

1. Restoring trust and confidence
2. Governance, compliance and risk management in multi-national environment
3. Culture – encouraging entrepreneurial risk taking and new ideas, respecting the law, treating staff and stakeholders well, caring for the environment, valuing diversity.
4. Delivering on a diversified global strategy of customers and markets and creating deeper and more lasting relationships in new markets
5. Research and development – develop or acquire new technologies to provide a broader range of remedial activities

Culture

Culture is how we think act and interact.

Whilst our work on developing clarity on PET's desired culture in 2021 has involved many conversations, the main vectors were:

1. executive and senior managers' interview feedback on what is strong about PET's culture and what is weak or holds the organisation back. In parallel, with
2. the Chairman's documented reflections on culture and how PET Management and the Board should work together.

The CEO and Chairman shared the convergence of this work at the Summit Session 1 (December 2021). The main ideas were captured in an "invitation" to the new leadership team for their feedback and reflection. Three underlying attitudes or values emerged, inviting PET people to **Care, Collaborate** and **Be Courageous.**

The conversation is continuing into 2022 with the leadership team individually and collectively sharing what living the values means to them personally, professionally and as coaches. We continue to embed a values-led approach in all business systems and processes and in our leadership rhythm and disciplines.

SHARES UNDER OPTION

Unissued ordinary shares of Phoslock Environmental Technologies Limited under option at the date of this report are as follows:

Grant date	Vesting date	Expiry date	Exercise price	Number under options
27 November 2019	31 December 2021	31 December 2022	$1.25	1,500,000
27 November 2019	31 December 2022	31 December 2023	$1.35	1,500,000
				3,000,000

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other related body corporate.

SHARES ISSUED ON THE EXERCISE OF OPTIONS

There were no ordinary shares of Phoslock Environmental Technologies Limited issued on the exercise of options during the year ended 31 December 2021 and up to the date of this report.

INDEMNITY AND INSURANCE OF OFFICERS

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

INDEMNITY AND INSURANCE OF AUDITOR

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to 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 part of those proceedings.

NON-AUDIT SERVICES

Details of the amounts paid or payable to the current and prior auditor for non-audit services provided during the financial year by the auditor are outlined in note 24 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 24 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants (including Independence Standards) issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

OFFICERS OF THE COMPANY WHO ARE FORMER PARTNERS OF SHINEWING AUSTRALIA

There are no officers of the Company who are former partners of ShineWing Australia.

ROUNDING OF AMOUNTS

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

Lachlan McKinnon
Managing Director
11 March 2022
Melbourne

SW
Accountants & Advisors

Take the lead

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE *CORPORATIONS ACT 2001* TO THE DIRECTORS OF PHOSLOCK ENVIRONMENTAL TECHNOLOGIES LIMITED

As lead auditor, I declare that, to the best of my knowledge and belief, during the year ended 31 December 2021 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.

ShineWing Australia

ShineWing Australia
Chartered Accountants

Hayley Underwood
Partner

Melbourne, 11 March 2022

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CORPORATE GOVERNANCE STATEMENT

INTRODUCTION

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 in the framework of the ASX Corporate Governance Principles and Recommendations (4th edition) (Recommendations) to ensure the Board is well equipped to discharge its responsibilities.

This statement is current as at 11 March 2022 and has been approved by the Board of Directors.

BOARD

Introduction

The role of the Board is to oversee the management of PET as well as provide strategic guidance. We have adopted a Board Charter that formally sets out the functions and responsibilities of the Board, with the objective of the Board being able to perform its role more effectively. This creates a system of checks and balances to provide a balance of authority.

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 David Krasnostein, is a Non-Executive Director and not involved in any day to day decision making of the Company.

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 person is appointed as Director or put forward for election as a Director, 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 a quarterly and or half yearly 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 has 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 Remuneration Committee 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 and Remuneration Committee

The Committee consists of the full Board. The Company believes that the full Board is the best qualified to effectively perform the functions of the Committee in accordance with the Charter. A copy of Company's Nomination and Remuneration 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 basis 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 quality of the accounting function;
- Reviewing external audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified appropriate and prompt remedial action is taken by management; and
- Liaising with the external auditors and ensuring that the annual audit and half-year review are conducted in an effective manner.

The 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 monitor and receive advice on areas of operational and financial risks and consider strategies for appropriate risk management arrangements.

Specific areas 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.

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.

ETHICAL STANDARDS

PET has a Code of Conduct that provides an outline of the standards of ethical behaviour expected of Directors and employees and provides accountability of unethical practices. The Code of Conduct also includes PET's Statement of Values.

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 Code of Conduct 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

CONFIDENTIALITY

The Board members are required to ensure that all Company business is kept confidential by each Director and Officer 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 interests of the Company as a whole are safeguarded.

A conflict will arise:

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

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

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

ANTI-BRIBERY AND CORRUPTION POLICY

The purpose of the Anti-bribery and Corruption Policy is to prohibit conduct that amounts to bribery or corruption.

PET does not permit:

- engaging in bribery, facilitation payments or secret commissions, except to avoid an immediate threat to someone's safety;
- victimisation for not engaging in bribery, facilitation payments or secret commissions;
- the making of political donations on behalf of PET;
- the making of charitable or community donations that may be perceived as bribes;
- the offering or acceptance of gifts, hospitality or travel in a manner contrary to the policy; or
- engaging or paying a business partner knowing or suspecting they may engage in prohibited conduct.

SHAREHOLDER COMMUNICATIONS (DISCLOSURE) POLICY

The purpose of the Shareholder Communications (Disclosure) Policy is to uphold PET's commitment to taking a proactive approach to continuous disclosure and creating a culture within PET that promotes and facilitates compliance with the company's continuous disclosure obligations.

This policy is designed to ensure that PET meets its continuous disclosure obligations under the ASX Listing Rules.

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 and 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 reviews 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	Company has approx. 40 employees ranging from low skilled factory workers to technical specialists with PhD's. The Company operates in 10 countries and requires fluent speakers of a number of languages. The Company's policy in the past has been 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. The company is in the process of developing a diversity policy which will be shared with stakeholders in due course.
1.6(a)	Board should have policy of evaluating Board, its Directors and Committees	A	The Board reviews 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 for the reporting period
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

ASX Principle			Company Status & Reference/Comment
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 The Nomination Committee Charter is on the Company's website (embedded in the Board Charter)
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 35 reasons why Directors are not considered independent
2.3(c)	Company should detail the length of service of each Director	A	The length of service of each Director is set out in the Company's Annual Report and on the Company's website
2.4	A majority of Directors should be independent	A	Three of the four Non-Executive Directors are considered to be Independent Non-Executive Directors
2.5	The Chair of the Board should be an Independent Director	A	The Company's Chairman is an independent Director.
	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	The Chair discusses with Directors if development support is required

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 a Code of Conduct
3.1(b)	Company should disclose the Code of Conduct	A	The Code of Conduct 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 and Risk Committee
4.1(a)(1)	Audit Committee should comprise at least three Directors, majority of whom are independent	A	Audit and Risk Committee currently has three members, all are Non-Executive Directors. The Board evaluates on an on-going basis the appropriateness of the composition of the Committee
4.1(a)(2)	Audit Committee should be chaired by an Independent Director	A	Audit and Risk Committee is chaired by an Independent Director
4.1(a)(3)	Audit Committee should have a charter which is published	A	Audit and Risk Committee 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 and 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 and 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

ASX Principle		Company Status & Reference/Comment	
PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE			
5.1(a)	Company should have a written policy for complying with the ASX Listing Rules Continuous Disclosure	A	Company is fully aware of its obligations with the ASX Listing Rules Continuous Disclosure. The Continuous Disclosure policy is published on the Company's website
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. The Continuous Disclosure policy is published on the Company's website
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 information about the Company and its governance
6.2	Company should implement an investor relations program to facilitate two way communication with investors	A	Given its size, Company uses ASX releases and its website to communicate material information to investors. A consultant has been engaged to assist with investor communications
6.3	Company should disclose policies and processes to encourage participation at meetings of security holders	A	Company encourages participation at all meetings of security holders. All security holders are sent information about a meeting in the Notice of Meeting and any accompanying materials well in advance of the meeting; at each meeting 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 has worked with its Share Registrar to obtain email addresses of all its shareholders to enable documents to be sent electronically

ASX Principle			Company Status & Reference/Comment

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

7.1	Company should have a Risk Management Committee	A	Company has an Audit and 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 Directors' meeting
7.2(b)	Board should disclose whether a Risk Management review took place	A	Company reports Risk Management review in Directors' 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.
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 Directors' Report in Annual Report

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

8.1(a)	Company should have a Remuneration Committee	A	Company has a Nomination and Remuneration Committee
8.1(a)(1)	Remuneration Committee should comprise at least three Directors, majority of whom are independent	A	Nomination and Remuneration Committee comprises three Directors, 2 of which are independent
8.1(a)(2)	Remuneration Committee should be chaired by an Independent Director	A	Nomination and Remuneration Committee is not chaired by an Independent Director. The Committee's Chairman, because of his relationship with a substantial holder, is not considered an independent non-executive director. The board is satisfied that, given the nature of the relationship and their lack of involvement in any day to day decision making of the Company, the director should not be precluded from being Chair.
8.1(a)(3)	Remuneration Committee should have a charter which is published	A	Nomination and Remuneration Committee charter is published on 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 Nomination and 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 Nomination and 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 Directors' Report in the Annual Report
8.3	If Company has 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


PET

Statement of profit or loss and other comprehensive income
For the year ended 31 December 2021

	Note	Consolidated 31 Dec 2021 $'000	Consolidated 31 Dec 2020 Restated $'000
Revenue			
Sales revenue	6	6,297	6,878
Cost of sales		(2,711)	(2,775)
Gross profit		3,586	4,103
Other income	7	3,958	365
Interest revenue calculated using the effective interest method		92	106
Expenses			
Distribution		(121)	(98)
Marketing		(202)	(330)
Occupancy		(82)	(342)
Director, listing and professional fees		(6,598)	(4,124)
Administration		(5,319)	(6,954)
Reversals/(impairment) of receivables	11	2,441	(10,935)
Reversals/(impairment) of assets	8	(1,631)	(7,381)
Share-based expense reversal		-	30
Finance costs	8	(61)	(204)
Loss before income tax benefit		(3,937)	(25,764)
Income tax benefit	9	-	272
Loss after income tax benefit for the year attributable to the owners of Phoslock Environmental Technologies Limited		(3,937)	(25,492)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		107	408
Other comprehensive income for the year, net of tax		107	408
Total comprehensive income for the year attributable to the owners of Phoslock Environmental Technologies Limited		(3,830)	(25,084)
		Cents	**Cents**
Basic earnings per share	30	(0.63)	(4.22)
Diluted earnings per share	30	(0.63)	(4.22)

Refer to note 4 for detailed information on Restatement of comparatives.

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Statement of financial position
As at 31 December 2021

	Note	31 Dec 2021 $'000	Consolidated 31 Dec 2020 Restated $'000	31 Dec 2019 Restated $'000
Assets				
Current assets				
Cash and cash equivalents	10	22,991	30,441	14,959
Trade and other receivables	11	2,781	2,726	12,443
Inventories	12	3,305	3,959	4,726
Financial assets		126	-	-
Other	13	633	331	723
Total current assets		29,836	37,457	32,851
Non-current assets				
Property, plant and equipment	14	15	73	1,566
Right-of-use assets	15	322	165	699
Intangibles	16	241	187	184
Total non-current assets		578	425	2,449
Total assets		30,414	37,882	35,300
Liabilities				
Current liabilities				
Trade and other payables	17	2,935	3,659	7,657
Contract liabilities	18	88	-	-
Lease liabilities	19	520	544	352
Income tax	9	-	444	708
Employee benefits		282	296	549
Total current liabilities		3,825	4,943	9,266
Non-current liabilities				
Lease liabilities	19	772	3,292	326
Other		-	-	19
Total non-current liabilities		772	3,292	345
Total liabilities		4,597	8,235	9,611
Net assets		25,817	29,647	25,689
Equity				
Issued capital	20	92,398	92,398	63,326
Reserves	21	1,092	985	607
Accumulated losses		(67,673)	(63,736)	(38,244)
Total equity		25,817	29,647	25,689

Refer to note 4 for detailed information on Restatement of comparatives.

The above statement of financial position should be read in conjunction with the accompanying notes

Statement of changes in equity
For the year ended 31 December 2021

Consolidated	Issued capital $'000	Option reserves $'000	Foreign currency translation reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 January 2020	63,387	30	577	(38,237)	25,757
Restatement of comparatives (note 4)	(61)	-	-	(7)	(68)
Balance at 1 January 2020 - restated	63,326	30	577	(38,244)	25,689
Loss after income tax benefit for the year	-	-	-	(25,492)	(25,492)
Other comprehensive income for the year, net of tax	-	-	408	-	408
Total comprehensive income for the year	-	-	408	(25,492)	(25,084)
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (note 20)	29,072	-	-	-	29,072
Share-based payments (note 31)	-	(30)	-	-	(30)
Balance at 31 December 2020 (restated)	92,398	-	985	(63,736)	29,647

Consolidated	Issued capital $'000	Option reserves $'000	Foreign currency translation reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 January 2021	92,398	-	985	(63,736)	29,647
Loss after income tax expense for the year	-	-	-	(3,937)	(3,937)
Other comprehensive income for the year, net of tax	-	-	107	-	107
Total comprehensive income for the year	-	-	107	(3,937)	(3,830)
Balance at 31 December 2021	92,398	-	1,092	(67,673)	25,817

The above statement of changes in equity should be read in conjunction with the accompanying notes

Statement of cash flows
For the year ended 31 December 2021

	Note	Consolidated 31 Dec 2021 $'000	Consolidated 31 Dec 2020 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		8,766	6,130
Receipts from research and development grant and other income		215	620
Payments to suppliers and employees (inclusive of GST)		(15,469)	(19,568)
Interest received		87	106
Interest and other finance costs paid		-	(1)
Income taxes refunded/(paid)		(525)	159
Net cash used in operating activities	29	(6,926)	(12,554)
Cash flows from investing activities			
Payments for property, plant and equipment	14	(51)	(31)
Payments for intangibles	16	(92)	(21)
Proceeds from disposal of property, plant and equipment		2	-
Net cash used in investing activities		(141)	(52)
Cash flows from financing activities			
Proceeds from issue of shares	20	-	30,004
Share issue transaction costs		-	(932)
Repayment of lease liabilities		(480)	(1,113)
Net cash from/(used in) financing activities		(480)	27,959
Net increase/(decrease) in cash and cash equivalents		(7,547)	15,353
Cash and cash equivalents at the beginning of the financial year		30,441	14,959
Effects of exchange rate changes on cash and cash equivalents		97	129
Cash and cash equivalents at the end of the financial year	10	22,991	30,441

The above statement of cash flows should be read in conjunction with the accompanying notes

Notes to the financial statements
31 December 2021

Note 1. General information

The financial statements cover Phoslock Environmental Technologies Limited as a Group consisting of Phoslock Environmental Technologies Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Phoslock Environmental Technologies Limited's functional and presentation currency.

Phoslock Environmental Technologies Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Unit D
Level 2, Como Centre
650 Chapel Street
South Yarra Victoria 3141

A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 11 March 2022. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted
The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Going concern
The directors have formed the view that the financial statements should be prepared on the going concern basis of accounting, which assumes, the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. This is supported by the Group's strong cash position and net current asset position of $26,011,000 as at 31 December 2021 (31 December 2020: $32,514,000), and the Group having no external loan facilities and no litigation matters currently against it.

Basis of preparation
These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention
The financial statements have been prepared under the historical cost convention, unless otherwise stated.

Critical accounting estimates
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Parent entity information
In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 32.

Notes to the financial statements
31 December 2021

Note 2. Significant accounting policies (continued)

Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Phoslock Environmental Technologies Limited ('Company' or 'parent entity') as at 31 December 2021 and the results of all subsidiaries for the year then ended. Phoslock Environmental Technologies Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments
Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Foreign currency translation
The financial statements are presented in Australian dollars, which is Phoslock Environmental Technologies Limited's functional and presentation currency.

Foreign currency transactions
Foreign currency transactions are translated into the Company's functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations
The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Notes to the financial statements
31 December 2021

Note 2. Significant accounting policies (continued)

Revenue recognition
The Group recognises revenue as follows:

Revenue from contracts with customers
Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

Sale of goods
Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time when the goods are despatched from the Group's warehouse or loaded in the shipping vessels depending on the shipping terms.

Rendering of services
Revenue from the design, engineering and project implementation contract to provide services is recognised over time as the services are rendered.

Research and development grant
Research and development grant are recognised at fair value where there is a reasonable assurance that the grant will be received, and that the Group will comply with all attached conditions. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs it is compensating.

Interest
Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue
Other revenue is recognised when it is received or when the right to receive payment is established.

Income tax
The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:
- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the financial statements
31 December 2021

Note 2. Significant accounting policies (continued)

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Current and non-current classification
Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents
Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables
Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Inventories
Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a 'moving average' basis. Cost comprises direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Investments and other financial assets
Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless an accounting mismatch is being avoided.

Notes to the financial statements
31 December 2021

Note 2. Significant accounting policies (continued)

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Financial assets at amortised cost
A financial asset is measured at amortised cost only if both of the following conditions are met: (i) it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

Impairment of financial assets
The Group recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

Property, plant and equipment
Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Plant and equipment	10 years
Motor vehicles	3 years

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

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Right-of-use assets
A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Notes to the financial statements
31 December 2021

Note 2. Significant accounting policies (continued)

Intangible assets
Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Patents
Significant costs associated with patents are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 20 years.

Impairment of non-financial assets
Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables
Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Contract liabilities
Contract liabilities represent the Group's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the Group recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the Group has transferred the goods or services to the customer.

Lease liabilities
A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Employee benefits

Short-term employee benefits
Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Notes to the financial statements
31 December 2021

Note 2. Significant accounting policies (continued)

Other long-term employee benefits
The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense
Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments
Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Issued capital
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.

Earnings per share

Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to the owners of Phoslock Environmental Technologies Limited, 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 financial year.

Notes to the financial statements
31 December 2021

Note 2. Significant accounting policies (continued)

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 shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes
Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Rounding of amounts
The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

New Accounting Standards and Interpretations not yet mandatory or early adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 31 December 2021. The Group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Coronavirus (COVID-19) pandemic
Judgement has been exercised in considering the impacts that the COVID-19 pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates. Coronavirus (COVID-19) impacted the business through the reporting period via restrictions imposed in key markets to slow the spread of the virus. Restrictions in Beijing caused challenges in business development as key personnel could not visit strategically important clients and sites. China sales were delayed through the period as government officials reprioritised short term emergency resources away from projects such as lake restoration towards immediate health resources. In Europe, several projects were impacted by COVID-19 related delays. In those instances, authorities with which PET has contracted remediation works have cited more pressing expenditure priorities associated with supporting local communities during the pandemic. While these projects have been delayed, none have been cancelled. Other than the above, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Group unfavourably as at the reporting date or subsequently as a result of the COVID-19 pandemic.

Notes to the financial statements
31 December 2021

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience, historical collection rates, the impact of the COVID-19 pandemic and forward-looking information that is available. The allowance for expected credit losses, as disclosed in note 11, is calculated based on the information available at the time of preparation. The actual credit losses in future years may be higher or lower

Provision for impairment of inventories

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The Group assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Uncertain tax positions

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement and estimates are required in recognising and measuring current and deferred tax amounts. For any uncertain tax treatment adopted relating to transactions or events, the Group recognises and measures tax related amounts having regard to both the probability that such amounts may be challenged by a tax authority and the expected resolution of such uncertainties. In such circumstances, tax balances are determined based on either most-likely amount or expected-value probability based outcomes. Where final tax outcomes vary from what is estimated, such differences will impact the current and deferred tax provisions recognised in the financial statements.

Note 4. Restatement of comparatives

During the year, the Group continued to undertake a review of its financial position and financial performance in order to identify, quantify and account for transactions connected with previously disclosed accounting irregularities. The process also included a review of prior period accounting transactions and judgments dating back to 2017. Consequently, the Company identified accounting errors made in prior periods and amended previous accounting estimates and judgements, which are detailed below.

Where appropriate, the Group has restated prior period comparatives in relation to these matters.

In respect to prior periods, the Group has made the following adjustments which impact:

- the comparative statement of financial position as at 31 December 2019 and 31 December 2020; and
- the comparative statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2020 and 31 December 2019.

Notes to the financial statements
31 December 2021

Note 4. Restatement of comparatives (continued)

The following adjustments were made:

(1) An error was found in the initial estimate arising from the finalisation of analysis by the Group's tax advisors with respect to payroll tax associated with the vesting of options issued to employees for 31 December 2019 and prior. The initial estimate was made in 31 December 2020 and has been corrected in the same period.
(2) De-recognition of a liability for the opening balance 31 December 2019 to correct for a duplicate intercompany invoice input in error. The transaction related to an intercompany transaction between the Company's UK subsidiary and parent made in 2016.
(3) To record amortisation expense for Patents to be in line with the Company's Intangible Assets (Patents) Accounting policy for transactions dating back to 2017.
(4) De-recognition of a prepayment held as at 31 December 2019 and recognition of an expense for the period ended 31 December 2019 related to the registration of the Phoslock® product under the EU's REACH program. REACH is the European system for the registration of chemical substances without which substances such as Phoslock® can't be manufactured, imported or sold in the EU.
(5) The Company has become aware that 610,000 ordinary shares in the Company were invalidly issued to one of its wholly-owned subsidiaries in 2017 and 2019. These transactions have been accounted for and adjusted accordingly to reflect that the purported issue was void. Refer to note 20 for details.
(6) De-recognition of an overprovision for income tax in China tax at 31 December 2020 which should have been written back in that year.

The effects of these adjustments and the impact on the Statement of Financial Position and the Statement of Profit or Loss and Other Comprehensive Income for the 31 December 2020 comparative period and 31 December 2019 opening statement of financial position were as follows:

	As at 31 December 2020				As at 31 December 2019			
	Assets increase / (decrease) $'000	Liabilities (increase) / decrease $'000	Equity (increase) / decrease $'000	Profit increase / (decrease) $'000	Assets increase / (decrease) $'000	Liabilities (increase) / decrease $'000	Equity (increase) / decrease $'000	Retained earnings increase / (decrease) $'000
Adjustment 1	-	87	(87)	87	-	-	-	-
Adjustment 2	-	69	(69)	-	-	69	(69)	69
Adjustment 3	(22)	-	22	(10)	(12)	-	12	(12)
Adjustment 4	(58)	-	58	6	(64)	-	64	(64)
Adjustment 5	(61)	-	61	-	(61)	-	61	-
Adjustment 6	-	159	(159)	159	-	-	-	-
	(141)	315	(174)	242	(137)	69	68	(7)

Notes to the financial statements
31 December 2021

Note 4. Restatement of comparatives (continued)

The effects of these adjustments on the statement of profit or loss on the comparative period 31 December 2020 and year ended 31 December 2019 were as follows:

	Year ended 31 December 2020				Year ended 31 December 2019			
	Revenue increase / (decrease $'000	Gross profit increase) / (decrease) $'000	Operating profit increase / (decrease) $'000	Profit after tax increase / (decrease) $'000	Revenue increase / (decrease) $'000	Gross profit increase / (decrease) $'000	Operating profit increase / (decrease) $'000	Profit after tax increase / (decrease) $'000
Adjustment 1	-	-	87	87	-	-	-	-
Adjustment 2	-	-	-	-	-	-	69	69
Adjustment 3	-	-	(10)	(10)	-	-	(12)	(12)
Adjustment 4	-	-	6	6	-	-	(64)	(64)
Adjustment 5	-	-	-	-	-	-	-	-
Adjustment 6	-	-	-	159	-	-	-	-
	-	-	83	242	-	-	(7)	(7)

These transactions have been corrected by restating each of the affected financial statement line items for the prior periods as follows:

Consolidated statement of financial position	31-Dec-20 Reported $'000	Increase/ (decrease) $'000	31-Dec-20 Restated $'000	31-Dec-19 Reported $'000	Increase/ (decrease) $'000	31-Dec-19 Restated $'000
Assets						
Current assets						
Cash and cash equivalents	30,441	-	30,441	14,959	-	14,959
Trade and other receivables	2,726	-	2,726	12,443	-	12,443
Inventories	3,959	-	3,959	4,726	-	4,726
Other assets	450	(119)	331	848	(125)	723
Non-current assets						
Property, plant and equipment	73	-	73	1,566	-	1,566
Right-of-use assets	165	-	165	699	-	699
Intangibles	209	(22)	187	196	(12)	184
Total assets	38,023	(141)	37,882	35,437	(137)	35,300
Liabilities						
Current liabilities						
Trade and other payables	3,815	(156)	3,659	7,726	(69)	7,657
Lease liabilities	544	-	544	352	-	352
Income tax	603	(159)	444	708	-	708
Employee benefits	296	-	296	549	-	549
Non-current liabilities						
Lease liabilities	3,292	-	3,292	326	-	326
Other liabilities	-	-	-	19	-	19
Total liabilities	8,550	(315)	8,235	9,680	(69)	9,611
Equity						
Issued capital	92,459	(61)	92,398	63,387	(61)	63,326
Reserves	985	-	985	607	-	607
Accumulated losses	(63,971)	235	(63,736)	(38,237)	(7)	(38,244)
Total equity	29,473	174	29,647	25,757	(68)	25,689

Notes to the financial statements
31 December 2021

Note 4. Restatement of comparatives (continued)

Consolidated statement of profit or loss	Year ended 31 Dec 2020 Reported $'000	Increase/ (decrease) $'000	Year ended 31 Dec 2020 Restated $'000	Year ended 31 Dec 2019 Reported $'000	Increase/ (decrease) $'000	Year ended 31 Dec 2019 Restated $'000
Sales revenue	6,878	-	6,878	19,757	-	19,757
Cost of sales	(2,775)	-	(2,775)	(8,343)	-	(8,343)
Gross profit	4,103	-	4,103	11,414	-	11,414
Other income	298	-	298	571	-	571
Interest revenue calculated using the effective interest method	106	-	106	96	-	96
Distribution	(98)	-	(98)	(159)	-	(159)
Marketing	(336)	6	(330)	(643)	(64)	(707)
Occupancy	(342)	-	(342)	(129)	-	(129)
Director, listing and professional fees	(4,124)	-	(4,124)	(2,869)	-	(2,869)
Administration	(6,964)	77	(6,887)	(7,831)	57	(7,774)
Impairment of receivables	(10,935)	-	(10,935)	-	-	-
Impairment of assets/(reversals of impairment)	(7,381)	-	(7,381)	(189)	-	(189)
Share-based expense reversal	30	-	30	(30)	-	(30)
Finance costs	(204)	-	(204)	(73)	-	(73)
	(29,950)	83	(29,867)	(11,256)	(7)	(11,263)
Income tax expense	113	159	272	(1,241)	-	(1,241)
Profit after income tax	(25,734)	242	(25,492)	(1,083)	(7)	(1,090)

	Cents Reported	Cents Adjustment	Cents Restated	Cents Reported	Cents Adjustment	Cents Restated
Basic earnings per share	(4.25)	0.03	(4.22)	(0.21)	-	(0.21)
Diluted earnings per share	(4.25)	0.03	(4.22)	(0.21)	-	(0.21)

Note 5. Operating segments

Identification of reportable operating segments

The Group is organised into four operating segments based on geographical areas: Australia/NZ, Europe/UK, US/Canada/Brazil and China. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM review Underlying EBIT (earnings before interest and tax adjusted for non-cash items). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on a monthly basis.

Intersegment transactions

Intersegment sales were made at an internally determined transfer price. The price is based on what would be realised in the event the sale was made to an external party at arm's-length. Intersegment sales are eliminated on consolidation.

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

Notes to the financial statements
31 December 2021

Note 5. Operating segments (continued)

Intersegment receivables, payables and loans
Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

Major customers
During the year ended 31 December 2021, approximately 72% of the Group's external revenue was derived from sales to two customers (31 December 2020: approximately 87% of the Group's external revenue was derived from sales to four customers).

Operating segment information

Consolidated - 31 Dec 2021	Australia/NZ $'000	Europe/UK $'000	US/Canada/ Brazil $'000	China $'000	Eliminations $'000	Total $'000
Revenue						
Sales to external customers	358	4,068	1,053	818	-	6,297
Intersegment sales	2,218	9	517	1,321	(4,065)	-
Total sales revenue	2,576	4,077	1,570	2,139	(4,065)	6,297
Interest revenue	92	-	-	5	(5)	92
Total revenue	2,668	4,077	1,570	2,144	(4,070)	6,389
Underlying EBIT*	(9,126)	1,354	138	(1,010)	748	(7,896)
Interest revenue	92	-	-	-	-	92
Gain on remeasurement of lease liabilities	7	-	-	3,240	-	3,247
Reversal of impairment of receivables	-	-	-	2,441	-	2,441
Impairment of assets	(264)	-	-	(1,367)	-	(1,631)
Foreign exchange loss	(44)	-	-	(85)	-	(129)
Finance costs	(8)	-	-	(53)	-	(61)
Profit/(loss) before income tax expense	(9,343)	1,354	138	3,166	748	(3,937)
Income tax expense						-
Loss after income tax expense						(3,937)
Assets						
Segment assets	40,757	3,005	10	7,934	(21,292)	30,414
Total assets						30,414
Liabilities						
Segment liabilities	4,381	2,371	9	1,898	(4,062)	4,597
Total liabilities						4,597

Notes to the financial statements
31 December 2021

Note 5. Operating segments (continued)

Consolidated - 31 Dec 2020	Australia/NZ $'000	Europe/UK $'000	US/Canada/ Brazil $'000	China $'000	Eliminations $'000	Total $'000
Revenue						
Sales to external customers	132	629	2,876	3,241	-	6,878
Intersegment sales	353	107	-	2,332	(2,792)	-
Total sales revenue	485	736	2,876	5,573	(2,792)	6,878
Interest revenue	47	-	-	60	(1)	106
Total revenue	532	736	2,876	5,633	(2,793)	6,984
Underlying EBIT*	(7,258)	(87)	1,524	(838)	(654)	(7,313)
Interest revenue	46	-	-	60	-	106
Impairment of receivables	-	-	-	(10,935)	-	(10,935)
Impairment of assets	-	-	-	(7,381)	-	(7,381)
Share-based expense reversal	30	-	-	-	-	30
Foreign exchange losses	(51)	-	-	(16)	-	(67)
Finance costs	(24)	-	-	(180)	-	(204)
Profit/(loss) before income tax benefit	(7,257)	(87)	1,524	(19,290)	(654)	(25,764)
Income tax benefit						272
Loss after income tax benefit						(25,492)
Assets						
Segment assets	79,810	815	-	8,976	(51,719)	37,882
Total assets						37,882
Liabilities						
Segment liabilities	34,560	1,486	-	6,424	(34,235)	8,235
Total liabilities						8,235

* Underlying EBIT is a financial measure which is not prescribed by Australian Accounting Standards ('AAS') and represents the profit or loss under AAS adjusted for the add back of income tax, finance costs and certain non-cash income and expense items that are deemed to not have an ongoing affect to the underlying performance of the business. The Company believes that presenting Underlying EBIT provides a better understanding of its financial performance by facilitating a more representative comparison of financial performance between financial periods.

Notes to the financial statements
31 December 2021

Note 6. Revenue

Disaggregation of revenue
The disaggregation of revenue from contracts with customers is as follows:

	Consolidated	
	31 Dec 2021 $'000	31 Dec 2020 $'000
Geographical regions		
Australia/NZ	358	132
Europe/UK	4,068	629
US/Canada/Brazil	1,053	2,876
China	818	3,241
	6,297	6,878
Timing of revenue recognition		
Goods transferred at a point in time	5,927	6,833
Services transferred at a point in time	370	45
	6,297	6,878

Seasonality of operations
The Group's sale of goods segment is subject to seasonal fluctuations as a result of weather conditions. In particular, the sales and application of Phoslock® in northern China and European regions are affected by the winter weather conditions, which occur primarily from November to February.

Note 7. Other income

	Consolidated	
	31 Dec 2021 $'000	31 Dec 2020 $'000
Net gain on disposal of property, plant and equipment	-	7
Gain on remeasurement of lease liabilities	3,247	-
Research and development grants	(17)	273
Other income	728	85
Other income	3,958	365

Gain on remeasurement of lease liabilities
Refer to note 19 for more information.

Other
During the period the Company extinguished the contractual obligation to pay the 3rd party connected to the Xingyun Lake Project. This resulted in a write back of an accounts payable provision of $357,000 as a credit to the profit or loss in accordance with accounting standards. This also includes $235,000 freight collected from customers for product transportation and $31,000 rental income as a result of the sub-lease in Lime Street Sydney.

Notes to the financial statements
31 December 2021

Note 8. Expenses

	Consolidated	
	31 Dec 2021 $'000	31 Dec 2020 $'000
Loss before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	49	169
Buildings right-of-use assets	74	512
Office equipment right-of-use assets	7	7
Total depreciation	130	688
Amortisation		
Patents	12	10
Total depreciation and amortisation	142	698
Impairment		
Inventories	870	1,921
Plant and equipment	58	1,377
Rights-of-use assets	703	4,083
Total impairment	1,631	7,381
Finance costs		
Interest and finance charges paid/payable on borrowings	-	1
Interest and finance charges paid/payable on lease liabilities	61	203
Finance costs expensed	61	204
Net foreign exchange loss		
Net foreign exchange loss	129	67
Leases		
Short-term lease payments	31	342
Employee benefits expense		
Employee benefits expense excluding superannuation	4,026	4,467
Defined contribution superannuation expense	152	231
Total superannuation expense	4,178	4,698
Payroll tax expense		
Reversal of payroll tax expense*	(562)	-
Fringe benefit tax expense		
Reversal of fringe benefit tax expense**	(86)	-

* At 31 December 2020, the Group recognised an estimate for the Australian payroll tax liability expected to arise in connection with the vesting of options issued to employees. As of 30 June 2021, the Group received additional information which clarified the tax status of relevant individuals and resulted in a reduction in the expected liability of $649,000, $562,000 of which has been recognised within profit or loss in the current period and $87,000 has been recognised as a restatement to prior period (note 4). As of 31 December 2021, the Group has finalised the lodgements with respective tax authorities. Per final notice of assessment, final tax liability was $223,000 with $163,000 paid in December 2021 and the remaining $60,000 was settled in January 2022.

Notes to the financial statements
31 December 2021

** At 31 December 2020, the Group recognised an estimate for the Australian fringe benefit tax liability expected to arise in connection with previously undisclosed personal expense reimbursements made by the prior Managing Director, Robert Schuitema. As of 31 December 2021, the Group has finalised the lodgements with respective tax authorities. The final tax liability was $4,000 paid in January 2022

Note 9. Income tax

	Consolidated	
	31 Dec 2021 $'000	31 Dec 2020 Restated $'000
Income tax benefit		
Current tax	-	(642)
Adjustment recognised for prior periods	-	370
Aggregate income tax benefit	-	(272)
Numerical reconciliation of income tax benefit and tax at the statutory rate		
Loss before income tax benefit	(3,937)	(25,764)
Tax at the statutory tax rate of 26% (2020: 27.5%)	(1,024)	(7,085)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Impairment of assets	(1,116)	5,037
Share-based payments	-	(8)
	(2,139)	(2,056)
Adjustment recognised for prior periods	-	370
Current year tax losses not recognised	2,275	1,277
Foreign subsidiaries	(135)	137
Income tax benefit	-	(272)

	Consolidated	
	31 Dec 2021 $'000	31 Dec 2020 $'000
Tax losses not recognised		
Unused tax losses for which no deferred tax asset has been recognised	46,581	37,657
Potential tax benefit @ 26% (2020: 27.5%)	12,111	9,791

The above potential tax benefit for tax losses has not been recognised in the Statement of Financial Position. These tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed.

	Consolidated	
	31 Dec 2021 $'000	31 Dec 2020 $'000
Deferred tax assets not recognised		
Deferred tax assets not recognised comprises temporary differences attributable to:		
Tax losses	12,111	10,356
Accruals and provisions	306	441
Total deferred tax assets not recognised	12,417	10,797

Notes to the financial statements
31 December 2021

Note 9. Income tax (continued)

The above potential tax benefit for deductible temporary differences has not been recognised in the Statement of Financial Position as the recovery of this benefit is uncertain.

	Consolidated	
	31 Dec 2021 $'000	31 Dec 2020 $'000
Provision for income tax		
Provision for income tax	-	444

Note 10. Cash and cash equivalents

	Consolidated	
	31 Dec 2021 $'000	31 Dec 2020 $'000
Current assets		
Cash on hand	-	15
Cash at bank	22,991	30,426
	22,991	30,441

Note 11. Trade and other receivables

	Consolidated	
	31 Dec 2021 $'000	31 Dec 2020 $'000
Current assets		
Trade receivables	10,843	12,976
Less: Allowance for expected credit losses	(8,062)	(10,350)
	2,781	2,626
Grant income receivable	-	100
	2,781	2,726

Allowance for expected credit losses

As at 30 June 2021 the receivable from BHZQ remained due, at that time the probability of collection was deemed remote, notwithstanding the Group's continued efforts to recover the amount including taking the matter to arbitration. The Group recognised an impairment provision of $2,121,000 for the half year ended June 30 2021 for the amount outstanding from BHZQ. This amount constitutes the full balance owing.

On 10 January 2022, the Group obtained a $1,800,000 settlement of outstanding receivable and recognised a reversal equal to this amount as at 31 December 2021 (31 December 2020: loss of $2,121,000). The amount has been received in two equal instalments in mid-January 2022 and mid-February 2022.

As detailed in note 17, the Group identified an amount of $349,000 at 31 December 2020, which related to a contractual obligation to pay a third party connected with transactions under investigation in connection with the Group's Chinese operations. The Group was party to a contemporaneous sales contract on the Xingyun Lake Project.

Due to concerns regarding the interdependency of the two contracts related to the Xingyun Lake Project, the Board concluded that the recoverability of outstanding accounts receivable in relation to this contract is uncertain. The Board concluded to continue to impair the outstanding balance recognising an allowance for expected credit losses of $6,403,000 as at 31 December 2020 in relation to this contract.

Notes to the financial statements
31 December 2021

Note 11. Trade and other receivables (continued)

During the year, the Company received the Phase 1 payment ($536,000) relating to works completed at Xingyun Lake. The part payment resulted in a partial write back of the impairment provision maintained at 31 December 2020. Although this recent part-payment is a positive outcome, it is for initial work, not the bulk of the project application. The Company is yet to receive written confirmation of the receivable from the customer, or acknowledgment that it is past due, despite several requests to that effect.

During the current period, the Company extinguished the contractual obligation to pay the 3rd party connected to the Xingyun Lake Project. This resulted in a write back of an account payable provision of $357,000 as a credit to other income in the statement of profit or loss, in accordance with accounting standards.

Notwithstanding the release of the contractual obligation, it remains management's judgment that the recoverability of outstanding accounts receivable for Xingyun Lake continues to be uncertain and the impairment provision remain.

The Company remains in frequent contact with Xingyun Lake officials to secure payment. Throughout 2021 officials of the Lake have made overtures to reach agreement on a payment plan. These types of overtures in the past have borne little fruit. Should the lake officials agree to a payment plan and demonstrate a consistency of payment to the plan, management will re-assess its judgement on the balance of that receivable.

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

	Carrying amount		Allowance for expected credit losses	
Consolidated	31 Dec 2021 $'000	31 Dec 2020 $'000	31 Dec 2021 $'000	31 Dec 2020 $'000
Not overdue	1,019	11,068	-	8,913
0 to 3 months overdue	81	264	-	-
3 to 6 months overdue	688	21	-	-
Over 6 months overdue	9,055	1,623	8,062	1,437
	10,843	12,976	8,062	10,350

Movements in the allowance for expected credit losses are as follows:

	Consolidated	
	31 Dec 2021 $'000	31 Dec 2020 $'000
Opening balance	10,350	-
Additional provisions/(reversals) recognised	(3,047)	10,935
Foreign exchange translation	759	(585)
Closing balance	8,062	10,350

Notes to the financial statements
31 December 2021

Note 12. Inventories

	Consolidated 31 Dec 2021 $'000	Consolidated 31 Dec 2020 $'000
Current assets		
Raw materials - at cost	877	1,012
Finished goods - at cost	4,238	4,319
Less: Provision for impairment	(1,810)	(1,372)
	2,428	2,947
	3,305	3,959

The Group concluded that its inventory holding exceeded short term demand in light of the continued impacts of COVID-19 and reduced business activity in China following the Board investigation. While directors believe there is a limited risk of its inventory (both raw materials and finished goods) becoming obsolete or expiring (excluding the amounts disclosed below), based on the factors outlined above, the Board concluded to impair all or portions of inventory that are not associated with a committed order or is under contract negotiation with a memorandum of understanding (MOU).

The Chinese Manufacturing facility ('PWSC') holds $1,508,000 worth of Phoslock® that has been defined as having a quality issue or defect in the product during the manufacturing process which renders it non-resaleable or non-useable in its current state, and therefore has been fully provided for.

Note 13. Other

	Consolidated 31 Dec 2021 $'000	Consolidated 31 Dec 2020 Restated $'000
Current assets		
Prepayments	471	273
Other deposits	130	26
Other current assets	32	32
	633	331

Note 14. Property, plant and equipment

	Consolidated 31 Dec 2021 $'000	Consolidated 31 Dec 2020 $'000
Non-current assets		
Plant and equipment - at cost	2,283	2,341
Less: Accumulated depreciation	(793)	(784)
Less: Impairment	(1,475)	(1,484)
	15	73
Motor vehicles - at cost	76	76
Less: Accumulated depreciation	(76)	(76)
	-	-
	15	73

Notes to the financial statements
31 December 2021

Note 14. Property, plant and equipment (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Plant and equipment $'000
Balance at 1 January 2020	1,566
Additions	31
Exchange differences	22
Impairment of assets	(1,377)
Depreciation expense	(169)
Balance at 31 December 2020	73
Additions	50
Disposals	(5)
Exchange differences	4
Impairment of assets	(58)
Depreciation expense	(49)
Balance at 31 December 2021	15

Impairment

As at 30 June 2020 the Group identified an indicator of impairment with respect to the Group's property, plant and equipment, arising from the operating loss incurred by the Group during the period. In light of this, the Group undertook an impairment assessment which resulted in the recognition of an impairment loss which reduced the carrying value of Phoslock (Changxing) Water Solutions (China) (a subsidiary of the Group) plant, property and equipment assets to $nil.

The recoverable amount of the CGU associated with the Group's Chinese operations was estimated based on the present value of the future cash flows expected to be derived from the CGU (value in use). The recoverable amount of the CGU was lower than the carrying amount of the assets within the CGU and therefore an impairment loss was recognised on property, plant and equipment in the comparative period as outlined above.

This impairment loss reflects the uncertainty regarding the future operating performance of the Group in light of the loss incurred in the current year, volatile market conditions associated with COVID-19 and uncertainty regarding the future performance of the Group's Chinese operations.

In accordance with accounting standards, an impairment loss on property, plant and equipment assets can be reversed where there is evidence that the conditions that resulted in the impairment loss are no longer present. The Group intends to reassess the position adopted at future balance dates, as it did as at 31 December 2021 for all subsidiaries in China, with reference to current and future trading performance at that time.

The value in use model was created to test whether the CGU generates cash when taking into consideration the relative age and condition of the assets and capacity constraint of the plant as a result of treating the wastewater appropriately (3,000 tonnes p/a).

Given the above, combined with market pricing of the product and the overheads inherent in the business, the model indicated that the recoverable amount of the CGU was lower than the carrying amount of the assets within the CGU and therefore an impairment loss was recognised on property, plant and equipment in the current and comparative period as outlined above.

Notes to the financial statements
31 December 2021

Note 15. Right-of-use assets

	Consolidated	
	31 Dec 2021 $'000	31 Dec 2020 $'000
Non-current assets		
Land and buildings - right-of-use	1,959	4,106
Less: Accumulated depreciation	(60)	(93)
Less: Impairment	(1,580)	(3,865)
	319	148
Office equipment - right-of-use	14	28
Less: Accumulated depreciation	(11)	(11)
	3	17
	322	165

The Group leases land and buildings for its office and factory facilities under agreements of between 3 to 10 years with options to extend. On renewal, the terms of the leases are renegotiated.

The Group also leases office equipment under contracts of 4 years.

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Buildings right-of-use $'000	Office equipment right-of-use $'000	Total $'000
Balance at 1 January 2020	689	10	699
Additions	4,068	15	4,083
Exchange differences	(14)	(1)	(15)
Impairment of assets	(4,083)	-	(4,083)
Depreciation expense	(512)	(7)	(519)
Balance at 31 December 2020	148	17	165
Additions	1,031	-	1,031
Disposals	(97)	(7)	(104)
Lease modifications	(3,055)	-	(3,055)
Exchange differences	(56)	-	(56)
Impairment of loss recognised	(703)	-	(703)
Impairment loss reversed	3,125	-	3,125
Depreciation expense	(74)	(7)	(81)
Balance at 31 December 2021	319	3	322

Impairment
As at 30 June 2020 the Group identified an indicator of impairment with respect to its China Operations right-of-use assets, primarily lease assets, arising from the operating loss incurred by the Group during the period. In light of this, the Group undertook an impairment test which resulted in the recognition of an impairment loss which reduced the carrying value of the right-of-use asset to $nil.

Notes to the financial statements
31 December 2021

Note 15. Right-of-use assets (continued)

The recoverable amount of the CGU associated with the Group's Chinese operations was estimated based on the present value of the future cash flows expected to be derived from the CGU (value in use). The recoverable amount of the CGU was lower than the carrying amount of the assets within the CGU and therefore an impairment loss was recognised on right-of-use assets in the comparative period as outlined above. This impairment loss reflects the uncertainty regarding the future operating performance of the Group in light of the loss incurred in the current year, volatile market conditions associated with COVID-19 and uncertainty regarding the future performance of the Group's Chinese operations.

In accordance with accounting standards, an impairment loss on right-of-use assets can be reversed where there is evidence that the conditions that resulted in the impairment loss are no longer present. The Group intends to reassess the position adopted at future balance dates, as it did as at 31 December 2021, with reference to current and future trading performance at that time.

On 11 January 2021 the Group signed a lease modification with its landlord in relation to the Zheijang Phoslock Environmental Technologies Ltd (China) ('PETZ') factory which reduced the lease term, square footage and overall cost. This is part of the ongoing effort to right size the business as a result of the investigation findings and current trading conditions. This resulted in recognition of gain on remeasurement of lease liabilities of $3,247,000 (note 7) presented as other income in the statement of profit or loss for the year ended 31 December 2021.

For other AASB 16 and lease related disclosures, refer to the following:
- Refer note 8 for details of depreciation on right-of-use assets, interest on lease liabilities and other lease payments;
- Refer note 19 for lease liabilities;
- Refer note 23 for undiscounted future lease commitments; and
- Refer consolidated statement of cash flows for repayment of lease liabilities

Note 16. Intangibles

	Consolidated	
	31 Dec 2021 $'000	31 Dec 2020 Restated $'000
Non-current assets		
Patents - at cost	281	218
Less: Accumulated amortisation	(40)	(31)
	241	187

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Patents $'000
Balance at 1 January 2020	184
Additions	21
Amortisation expense	(18)
Balance at 31 December 2020	187
Additions	66
Amortisation expense	(12)
Balance at 31 December 2021	241

Notes to the financial statements
31 December 2021

Note 17. Trade and other payables

	Consolidated	
	31 Dec 2021 $'000	31 Dec 2020 Restated $'000
Current liabilities		
Trade payables	1,674	2,216
Accrued expenses	1,206	553
Other payables	55	890
	2,935	3,659

The Group identified an amount of $349,000 at 31 December 2020, which related to a contractual obligation to pay a third party connected with transactions under investigation in connection with the Group's Chinese operations. The Group was party to a contemporaneous sales contract on the Xingyun Lake Project.

During the current period, the Company extinguished the contractual obligation to pay the 3rd party connected to the Xingyun Lake Project. This resulted in a write back of an account payable provision of $357,000 as a credit to other income in the statement of profit or loss, in accordance with accounting standards

Refer to note 23 for further information on financial instruments.

Note 18. Contract liabilities

	Consolidated	
	31 Dec 2021 $'000	31 Dec 2020 $'000
Current liabilities		
Contract liabilities	88	-

Reconciliation
Reconciliation of the written down values at the beginning and end of the current and previous financial year are set out below:

Opening balance	-	-
Payments received in advance	88	-
Closing balance	88	-

Unsatisfied performance obligations
The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied at the end of the reporting period was $88,000 as at 31 December 2021 ($nil as at 31 December 2020) and is expected to be recognised as revenue in future periods as follows:

	Consolidated	
	31 Dec 2021 $'000	31 Dec 2020 $'000
Within 12 months	88	-

Notes to the financial statements
31 December 2021

Note 19. Lease liabilities

	Consolidated 31 Dec 2021 $'000	Consolidated 31 Dec 2020 $'000
Current liabilities		
Lease liability	520	544
Non-current liabilities		
Lease liability	772	3,292
	1,292	3,836

Refer to note 23 for the contractual maturity of lease liabilities.

On 11 January 2021, the Group signed a lease modification with its landlord in relation to the Zheijang Phoslock Environmental Technologies Ltd (China)('PETZ') factory which reduced the lease term, square footage and overall cost. This is part of the ongoing effort to right size the business as a result of the investigation findings and current trading conditions. This resulted to recognition of gain on remeasurement of lease liabilities of $3,247,000 (note 7) presented as other income in the statement of profit or loss for the year ended 31 December 2021.

Note 20. Issued capital

	Consolidated 31 Dec 2021 Shares	Consolidated 31 Dec 2020 Restated Shares	Consolidated 31 Dec 2021 $'000	Consolidated 31 Dec 2020 Restated $'000
Ordinary shares - fully paid	624,390,509	624,390,509	92,398	92,398

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance - restated	1 January 2020	564,381,694		63,326
Issuance of shares institutional placement	17 April 2020	24,000,000	$0.50	12,000
Issuance of shares share purchase plan	7 May 2020	30,308,815	$0.50	15,154
Issuance of shares to key management personnel	3 June 2020	5,700,000	$0.50	2,850
Transaction costs				(932)
Balance	31 December 2020	624,390,509		92,398
Balance	31 December 2021	624,390,509		92,398

Ordinary shares

Ordinary shares entitle the holder to participate in any dividends declared and any proceeds attributable to shareholders should the Company be wound up, in proportions that consider both the number of shares held and the extent to which those shares are paid up. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

In the prior year, the Company became aware that 610,000 ordinary shares in the Company were invalidly issued to one of its wholly-owned subsidiaries in 2017 and 2019. These transactions have been accounted for and adjusted accordingly to reflect that the purported issue was void. The Company has completed the process of formally rescinding the purported issue and has taken the necessary steps to correct its registered details to remove these void shares.

Notes to the financial statements
31 December 2021

Note 20. Issued capital (continued)

Share buy-back
There is no current on-market share buy-back.

Capital risk management
The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group would look to raise capital when an opportunity to invest or expand its business or company was seen as value adding relative to the current Company's share price at the time of the investment. The Group is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The Group is subject to certain financing arrangements covenants in relation to office equipment. Meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy remains unchanged from the 31 December 2020 Annual Report.

Note 21. Reserves

	Consolidated 31 Dec 2021 $'000	Consolidated 31 Dec 2020 $'000
Foreign currency reserve	1,092	985

Foreign currency reserve
The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars.

Option reserve
The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Movements in reserves
Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Foreign currency $'000	Option $'000	Total $'000
Balance at 1 January 2020	577	30	607
Foreign currency translation	408	-	408
Option expense reversals	-	(30)	(30)
Balance at 31 December 2020	985	-	985
Foreign currency translation	107	-	107
Balance at 31 December 2021	1,092	-	1,092

Notes to the financial statements
31 December 2021

Note 22. Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Note 23. Financial instruments

Financial risk management objectives
The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by senior finance executives ('finance') under policies approved by Audit and Risk Committee under the delegated power from the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the Group's operating units. Finance reports to the Board on a monthly basis.

Market risk

Foreign currency risk
The Group undertakes certain sales and purchase of goods denominated in foreign currencies particularly the US dollar, Chinese Yuan and European Euro and is exposed to foreign currency risk through foreign exchange rate fluctuations.

The carrying amounts of the Group's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

	Assets		Liabilities	
Consolidated	31 Dec 2021 $'000	31 Dec 2020 $'000	31 Dec 2021 $'000	31 Dec 2020 $'000
US dollars	378	1,652	105	266
Euros	-	-	-	1
New Zealand dollars	-	-	3	-
Canadian dollars	-	-	40	54
	378	1,652	148	321

The Group had net assets denominated in foreign currencies of $230,000 (assets of $378,000 less liabilities of $148,000) as at 31 December 2021 (31 December 2020: $1,331,000 (assets of $1,652,000 less liabilities of $321,000)). Based on this exposure, had the Australian dollars weakened by 1% / strengthened by 1% (31 December 2020: weakened by 1% / strengthened by 1%) against these foreign currencies with all other variables held constant, the Group's profit before tax for the year would have been $2,300 lower/$2,300 higher (31 December 2020: $13,000 lower/$13,000 higher) and equity would have been $1,700 lower/$1,700 higher (31 December 2020: $9,000 lower/$9,000 higher). The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 12 months each year and the spot rate at each reporting date. The actual foreign exchange loss for the year ended 31 December 2021 was $129,000 (31 December 2020: loss of $67,000).

Price risk
The Group is not exposed to any significant price risk.

Interest rate risk
The Group's main interest rate risk arises from cash and cash equivalents. Cash and cash equivalents obtained at variable rates expose the Group to interest rate risk. Cash and cash equivalents obtained at fixed rates expose the Group to fair value interest rate risk.

Notes to the financial statements
31 December 2021

Note 23. Financial instruments (continued)

As at the reporting date, the Group had the following variable rate cash and cash equivalents outstanding:

Consolidated	31 Dec 2021 Weighted average interest rate %	31 Dec 2021 Balance $'000	31 Dec 2020 Weighted average interest rate %	31 Dec 2020 Balance $'000
Cash and cash equivalents	0.05%	22,991	0.33%	30,441
Other deposits	0.25%	130	1.40%	26
Net exposure to cash flow interest rate risk		23,121		30,467

An analysis by remaining contractual maturities is shown in 'liquidity and interest rate risk management' below.

	Basis points increase			Basis points decrease		
Consolidated - 31 Dec 2021	Basis points change	Effect on profit before tax	Effect on equity	Basis points change	Effect on profit before tax	Effect on equity
Net exposure to cashflow interest rate risk	100	231	231	100	(231)	(231)

	Basis points increase			Basis points decrease		
Consolidated - 31 Dec 2020	Basis points change	Effect on profit before tax	Effect on equity	Basis points change	Effect on profit before tax	Effect on equity
Net exposure to cashflow interest rate risk	100	305	305	100	(305)	(305)

Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The Group obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Group does not hold any collateral.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

Liquidity risk
Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Notes to the financial statements
31 December 2021

Note 23. Financial instruments (continued)

Remaining contractual maturities
The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated - 31 Dec 2021	1 year or less $'000	Between 1 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives				
Non-interest bearing				
Trade payables	1,674	-	-	1,674
Other payables	55	-	-	55
Interest-bearing - variable				
Lease liability	530	795	-	1,325
Total non-derivatives	2,259	795	-	3,054

Consolidated - 31 Dec 2020	1 year or less $'000	Between 1 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives				
Non-interest bearing				
Trade payables	2,216	-	-	2,216
Other payables	890	-	-	890
Interest-bearing - variable				
Lease liability	770	2,263	1,870	4,903
Total non-derivatives	3,876	2,263	1,870	8,009

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value of financial instruments
Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Notes to the financial statements
31 December 2021

Note 24. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by the auditor of the Company, and its network firms:

	Consolidated	
	31 Dec 2021 $	31 Dec 2020 $
Audit services		
Audit or review of the financial statements - SW	619,965	-
Audit or review of the financial statements - KPMG	289,957	457,535
	909,922	457,535
Other services		
Taxation services -KPMG	20,597	24,033
Forensic accounting services -KPMG	82,215	580,054
	102,812	604,087
	1,012,734	1,061,622
Audit services – network firm		
Audit or review of the financial statements -KPMG China	-	52,249
Audit or review of the financial statements -SW China	92,109	-
	92,109	52,249
Other services – network firm		
Taxation services -KPMG China	-	90,259
	92,109	142,508

Note 25. Contingent liabilities

The Group is continuing to assess certain regulatory compliance, legal and operational matters connected with its Chinese operations which may result in penalties being imposed, or the Group incurring additional costs associated with rectification and remediation activities. These include regulatory matters (in Australia and in China), potential civil proceedings, income tax and other associated tax matters as well as environmental matters. As at the date of this financial report it is not possible to measure theses obligations with sufficient reliability as they remain subject to the outcome of future events not wholly within the control of the entity. The Group will recognise a liability for these amounts if and when the possible obligations are confirmed and can be reliably measured.

The Group identified certain adjustments associated with historical income tax deductions, research and development activities and withholding tax matters which resulted in the restatement of prior period comparatives. These adjustments may result in penalties or interest in future periods. As at the date of this report, other than items detailed in this report, no amount has been provided for such costs as it is not possible to measure theses obligations with sufficient reliability as they remain subject to the outcome of future events not wholly within the control of the entity. These matters may require amendments to previously lodged income tax returns and therefore create an uncertain tax position in relation to the tax authorities' views in relation to these corrections. In addition, these adjustments may result in penalties or interest in future periods.

Note 26. Related party transactions

Parent entity
Phoslock Environmental Technologies Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 28.

Notes to the financial statements
31 December 2021

Note 26. Related party transactions (continued)

Transactions with key management personnel
Disclosures relating to key management personnel are set out in note 27 and the remuneration report included in the directors' report.

Transactions with related parties related to fraud
In the prior year, the Group identified that previous members of Key Management Personnel ('KMP') (Mr Zhigang Zhang - resigned 30 September 2020, Mr Ningping Ma- resigned 30 September 2020 and Mr Tingshan Liu- resigned 31 December 2020) had relationships with the following entities that rendered them to be related parties of the Group up to the date of the resignation of these KMPs, which had not been disclosed:

Entity	Relationship
Beijing Hualijia Environmental Engineering Technology Co., Ltd ('BHEET')	100% directly owned by Mr Zhang
Beijing BHZQ Environmental Engineering Technology Co., Ltd ('BHZQ')	27.19% indirectly owned by Mr Zhang 2.81% indirectly owned by Mr Ma Both are directors of BHZQ
Beijing Kelin Haohua Environmental Technology Development Co., Ltd ('BKHETD')	80% directly owned by Mr Zhang 15% directly owned by Mr Liu Both are directors of BKHETD

The following are the transactions with the above related entities:

Transactions	Entity	Year ended 31 Dec 2021* $	Year ended 31 Dec 2020 $
Sales of Phoslock® and bacteria agents (Xinfeng River Ecological Remediation)	BHZQ	-	807,104
Sales of aeration machines (Xinfeng River project)	BHZQ	-	185,696
Purchase of consulting service (Car rental service)	BHEET	-	9,512
Purchase of consulting service (Venue hire service)	BHEET	-	11,890

* There are no more transactions with the above related parties as they are no longer KMP during the year ended 31 December 2021.

Notes to the financial statements
31 December 2021

Note 26. Related party transactions (continued)

Receivable from and payable to related parties related to fraud
The receivable from and payable to the above related parties are as follows:

	31 December 2021		31 December 2020	
	Trade and other receivables $	Trade and other payables $	Trade and other receivables $	Trade and other payables $
BHEET**	-	-	1,591	202,566
BHZQ*	-	-	-	-
	-	-	1,591	202,566

* Represents value of receivables after provision for expected credit loss had been fully written-off as of 31 December 2021.
** There were trade and other receivables of $1,729 and trade and other payables of $256,117 as of 31 December 2021 but these are no longer disclosed as BHEET is not related party as at 31 December 2021.

Transactions with related parties previously disclosed
The following transactions occurred with related parties:

	Consolidated	
	31 Dec 2021 $	31 Dec 2020 $
Payment for services provided by relatives of key management personnel:		
Margaret Schuitema - part-time employment**	-	91,509
Yolanda Winks - part-time employment***	-	20,001
Venus Ho - part-time employment****	-	11,253
Payment for services provided by companies related to key management personnel:		
Payment for rent - Link Traders (Aus) Pty Ltd*	38,961	138,000
Payment for investor relations fees - Serenity Holdings Pty Ltd*	55,756	245,238

* related party of Laurence Freedman, related party up to date of retirement which is 25 May 2021.
** related party of Robert Schuitema, ceased being related party as at 25 May 2020.
*** related party of Andrew Winks, ceased being related party as at 31 December 2021.
**** related party of Chris Hui, ceased being related party as at 12 June 2020.

Receivable from and payable to related parties
Other than the receivable and payable to related parties which were previously not disclosed presented above, there were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties
There were no loans to or from related parties at the current and previous reporting date.

Terms and conditions
All transactions outside of China were made on normal commercial terms and conditions and at market rates.

Board investigations
The updated details of these matters are detailed in the 16 Nov 2021 disclosure ('PET Nov 2021 Business Update') the details of which can be found at https://www.phoslock.com.au/investor-centre/presentations/.

Notes to the financial statements
31 December 2021

Note 27. Key management personnel disclosures

Compensation
The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

	Consolidated	
	31 Dec 2021 $	31 Dec 2020 $
Short-term employee benefits	2,259,480	2,994,379
Post-employment benefits	137,995	224,755
Long-term benefits	(5,814)	75,624
Share-based payments	-	(30,392)
	2,391,661	3,264,366

Note 28. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

		Ownership interest	
Name	Principal place of business / Country of incorporation	31 Dec 2021 %	31 Dec 2020 %
Phoslock Europe GmbH	Switzerland	100%	100%
Phoslock Technologies Pty Ltd	Australia	100%	100%
Phoslock Pty Ltd	Australia	100%	100%
Phoslock International Pty Ltd	Australia	100%	100%
Phoslock Belgium BV	Belgium	100%	100%
Phoslock Water Solutions (UK) Ltd	United Kingdom	100%	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%
Zhejiang Phoslock Environmental Technologies Ltd	China	100%	100%
Phoslock Canada Inc.	Canada	100%	100%
Phoslock Inc.	USA	100%	-

Notes to the financial statements
31 December 2021

Note 29. Cash flow information

Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated 31 Dec 2021 $'000	Consolidated 31 Dec 2020 $'000
Loss after income tax benefit for the year	(3,937)	(25,492)
Adjustments for:		
Depreciation and amortisation	142	706
Share-based payments	-	(30)
Impairment/(reversals of impairment) of receivables	(2,441)	10,935
Impairment/(reversals of impairment) of assets	1,631	7,381
Other non-cash items	(1,105)	(674)
Change in operating assets and liabilities:		
Increase in trade and other receivables	(267)	(633)
Decrease/(increase) in inventories	654	(605)
Decrease/(increase) in prepayments	(428)	392
Decrease in trade and other payables	(724)	(3,998)
Increase in contract liabilities	88	-
Decrease in provision for income tax	(525)	(264)
Decrease in employee benefits	(14)	(253)
Decrease in other operating liabilities	-	(19)
Net cash used in operating activities	(6,926)	(12,554)

Changes in liabilities arising from financing activities

Consolidated	Lease liabilities $'000
Balance at 1 January 2020	678
Net cash used in financing activities	(1,113)
Acquisition of leases	4,068
Finance costs	203
Balance at 31 December 2020	3,836
Net cash used in financing activities	(480)
Lease modifications	(2,141)
Finance costs	77
Balance at 31 December 2021	1,292

Notes to the financial statements
31 December 2021

Note 30. Earnings per share

	Consolidated	
	31 Dec 2021 $'000	31 Dec 2020 $'000
Loss after income tax attributable to the owners of Phoslock Environmental Technologies Limited	(3,937)	(25,492)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	624,390,509	604,458,762
Weighted average number of ordinary shares used in calculating diluted earnings per share	624,390,509	604,458,762
	Cents	Cents
Basic earnings per share	(0.63)	(4.22)
Diluted earnings per share	(0.63)	(4.22)

3,000,000 (2020: 28,000,000) options were excluded from the weighted average number of ordinary shares used in calculating diluted earnings per share as they were anti-dilutive.

Note 31. Share-based payments

As of 31 December 2021, the long term-incentive schemes of the Company conform with best practice and are aligned with shareholders' interests.

Notes to the financial statements
31 December 2021

Note 31. Share-based payments (continued)

The following share option plans are outstanding as of 31 December 2021 and 31 December 2020.

Share option plan	Grant date	Exercise price	Vesting conditions	31 Dec 2021 Number of options outstanding	31 Dec 2020 Number of options outstanding
Options granted to CEO***	27 Nov 2019	$1.25	-PET Group record sales more than $120,000,000 for the period from 1 January 2020 to 31 December 2021 -Remain employed beyond the vesting date.	1,500,000	1,500,000
Options granted to CEO***	27 Nov 2019	$1.35	-PET Group record sales more than $200,000,000 for the period from 1 January 2020 to 31 December 2022 -Remain employed beyond the vesting date.	1,500,000	1,500,000
Options to PET Chinese employees*	23 Mar 2020	$1.00	-From 1 January 2020 to 31 December 2020 PET China record sales of: (a) more than $40,000,000 (entitled to 3,000,000 options) (b) more than $50,000,000 but less than or equal to $60,000,000 (additional 4,000,000 options) (c) more than $60,000,000 but less than or equal to $70,000,000 (additional 3,000,000 options) (d) more than $70,000,000 but less than or equal to $80,000,000 (additional 3,000,000 options) (e) more than $80,000,000 (additional 7,000,000 options) -Remain employed beyond the vesting date	$nil	20,000,000
Options to PET International employees**	24 Mar 2020 25 Mar 2020 9 Apr 2020	$1.00	-From 1 January 2020 to 31 December 2020 PET International record sales of: (a) more than $15,000,000 but less than or equal to $20,000,000 (entitled to 1,500,000 options) (b) more than $20,000,000 but less than or equal to $25,000,000 (additional 1,500,000 options) (c) more than $25,000,000 (additional 2,000,000 options) -Remain employed beyond the vesting date	$nil	4,150,000 800,000 50,000

* As part of the Board investigations, it was identified that the process for allocating the options lacked governance oversight. These options have not vested and have expired.

** The performance hurdle has not been achieved and as a consequence have expired.

*** Following the finalisation of the FY 2021 results the above options will be cancelled. In both instance the performance condition was not met.

Notes to the financial statements
31 December 2021

Note 31. Share-based payments (continued)

Set out below are summaries of options granted under the plan:

	Number of options 31 Dec 2021	Weighted average exercise price 31 Dec 2021	Number of options 31 Dec 2020	Weighted average exercise price 31 Dec 2020
Outstanding at the beginning of the financial year	28,000,000	$0.00	28,000,000	$1.03
Expired	(25,000,000)	$0.00	-	$0.00
Vesting conditions not met/lapsed*	-	$0.00	-	$1.00
Outstanding at the end of the financial year	3,000,000	$0.00	28,000,000	$1.03
Exercisable at the end of the financial year	-	$0.00	-	$0.00

During 31 December 2021 financial year, the options to PET Chinese employees and PET International employees totalling 25,000,000 options did not vest as the performance conditions have not been met and therefore have been cancelled. Outstanding options as at the date of financial statements relates to the CEO options totalling to 3,000,000 options. Following the finalisation of the FY 2021 results the 3,000,000 options will be cancelled as the performance condition was not met.

Note 32. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent 31 Dec 2021 $'000	Parent 31 Dec 2020 $'000
Profit/(loss) after income tax	3	(6,155)
Total comprehensive income	3	(6,155)

Statement of financial position

	Parent 31 Dec 2021 $'000	Parent 31 Dec 2020 $'000
Total current assets	3,152	3,070
Total assets	51,520	51,517
Total current liabilities	-	-
Total liabilities	-	-
Equity		
Issued capital	92,398	92,398
Accumulated losses	(40,878)	(40,881)
Total equity	51,520	51,517

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 31 December 2021 and 31 December 2020.

Notes to the financial statements
31 December 2021

Note 32. Parent entity information (continued)

Contingent liabilities
Except as disclosed in note 25, the parent entity had no contingent liabilities as at 31 December 2021 and 31 December 2020.

Capital commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment as at 31 December 2021 and 31 December 2020.

Significant accounting policies
The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:
- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 33. Events after the reporting period

Since 31 December 2021, the Group's operations have continued to be impacted by the COVID-19 pandemic and related Government actions imposed in key markets to slow the spread of the virus. As the global outbreak of COVID-19 continues to progress and evolve, it is extremely challenging to predict the full extent and duration of its impact on the Group's business activities.

No other matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Directors' declaration
31 December 2021

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

Lachlan McKinnon
Managing Director

11 March 2022
Melbourne

SW Accountants & Advisors

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PHOSLOCK ENVIRONMENTAL TECHNOLOGIES LIMITED

Report on the Audit of the Financial Report

Qualified Opinion

We have audited the financial report of Phoslock Environmental Technologies Limited (the Company and its subsidiaries (the Group)) which comprises the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial report of Phoslock Environmental Technologies Limited is in accordance with the *Corporations Act 2001*, including:

a. giving a true and fair view of the Group's financial position as at 31 December 2021 and of its financial performance for the year then ended, and

b. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Qualified Opinion

The prior period financial statements for the year ended 31 December 2020 were disclaimed by the predecessor auditor. We were unable to obtain sufficient appropriate audit evidence regarding the comparative information and opening balances as at 1 January 2021. As a result, we are qualifying on the comparative information and opening balances as at 1 January 2021. We were unable to determine what adjustments, if any, might have been necessary in the statement of profit and loss and other comprehensive income in respect of the financial statements for the year ending 31 December 2021.

We conducted our audit in accordance with Australian Auditing Standards. 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 auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES *110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code)* that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. 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.

In addition to the matter described in the Basis for Qualified Opinion section we have determined the matters described below to be the key audit matters to be communicated in our report.

1. Valuation of Inventory

Area of focus	How our audit addressed the area of focus
Refer to Note 3 (Critical accounting judgements, estimates and assumptions), Note 12 (Inventories) The Group holds inventory amounting to $3,305,000 which is significant to the financial statements. Inventory is required to be carried at the lower of its cost and net realisable value. The valuation of inventory involves a degree of estimation and judgement by management. Because of the high level of estimation and judgement involved, and the significant carrying balance, we have determined that this is a key area that our audit has focused upon.	**Our audit procedures included:** • obtaining an understanding and assessing key controls over the valuation of inventory • evaluating management's judgement and assumptions used in determining the need for an inventory provision. • reviewing subsequent inventory sales to ensure inventory was valued at the lower of cost and net realisable value. • evaluating the aging of inventory and ensuring costs assigned to inventory were reasonable. We assessed the adequacy of the Group's disclosures in respect of Inventory.

2. Trade receivables – Expected credit losses

Area of focus	How our audit addressed the area of focus
Refer to Note 3 (Critical accounting judgements, estimates and assumptions), Note 11 (Trade and other receivables) Given the size of trade receivables, the historical issues with regards to fraud being uncovered and the general economic environment, it's prudent to review management's estimate of expected credit losses (ECL) to ensure it appears reasonable.	**Our audit procedures included:** • obtaining an understanding and assessing whether the methodology applied by management in their ECL model is in accordance with the requirements of AASB 9. • assessing the mathematical accuracy of the model. • assessing the integrity of method, assumptions and data used by management in its assessment of the underlying risk of ECL's • assessing the impact of the COVID-19 pandemic on the loss rates along with forward-looking factors in the measurement of the ECL • assessing the adequacy of the provision by comparing the post period end cash receipts to the outstanding trade receivables at year end. Reviewing the adequacy of financial statement disclosures

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3. Impairment of non-current assets	
Area of focus	**How our audit addressed the area of focus**
Refer to Note 3 (Critical accounting judgements, estimates and assumptions), **Note 14 (Property, plant and equipment), Note 15 (Right-of-use assets)** The Group identified an indicator of impairment with respect to the China CGU and as a result the recoverable amount of the CGU was determined. The recoverable amount was determined using a value-in-use model based on discounted cashflows of management's forecasts for sales and EBITDA. Due to the high level of judgement involved, and the significant carrying amounts, we have determined that the recoverable amount is a key area that our audit has focussed upon.	**Our audit procedures included:** • obtaining an understanding and assessing key controls over the preparation of the value-in-use model • obtaining an understanding of the method, assumptions and data used by management in the value-in-use model • testing the accuracy of the value-in-use model • assessing whether the method, assumptions and data used by management were appropriate, and • obtaining assistance from our own valuation specialists to assess whether the key assumptions, method and data were appropriate. Assessed the adequacy of the Group's impairment disclosures.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Take the lead

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are 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 and 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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them, all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Take the lead

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 15 to 22 of the directors' report for the year ended 31 December 2021.

In our opinion, the Remuneration Report of Phoslock Environmental Technologies Limited for the year ended 31 December 2021 complies with section 300A of the *Corporations Act 2001*.

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

ShineWing Australia

ShineWing Australia
Chartered Accountants

Hayley Underwood
Partner

Melbourne, 11 March 2022

Shareholder information
31 December 2021

The shareholder information set out below was applicable as at 2 March 2022.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Number of holders	Ordinary shares % of total shares issued	Number of shares
1 to 1,000	630	0.05	310,137
1,001 to 5,000	1,852	0.15	908,216
5,001 to 10,000	1,230	2.16	13,569,168
10,001 to 100,000	3,476	19.14	119,481,463
100,001 and over	825	78.50	490,121,525
	8,013	100.00	624,390,509
Holding less than a marketable parcel	-	-	-

* Minimum $500 parcel cannot be calculated due to no price.

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares Number held	Ordinary shares % of total shares issued
LINK TRADERS (AUST) PTY LTD SUITE 405	55,411,368	8.87
ZZL PTY LTD (ZZL FAMILY A/C)	25,104,000	4.02
MR EVAN PHILIP CLUCAS	14,948,984	2.39
CITICORP NOMINEES PTY LIMITED	13,580,984	2.18
LINK ENTERPRISES (INTERNATIONAL) PTY LTD	12,640,146	2.02
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	8,920,247	1.43
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	6,474,934	1.04
MR TINGSHAN LIU	6,263,120	1.00
NEWVEST PTY LTD	6,099,860	0.98
LESWEEK PTY LIMITED	5,559,051	0.89
MR KYLE STUART PASSMORE	5,527,500	0.89
QUIZETE PTY LTD	5,279,000	0.85
MR JIAN DENG	5,270,000	0.84
MR EDWIN PAUL CAYZER	5,137,483	0.82
SHARKY HOLDINGS PTY LTD (MORRIS FAMILY A/C)	4,800,000	0.77
MR MARIO SPIRANOVIC	4,786,827	0.77
MR DAVID NEVILLE COLBRAN	4,715,575	0.76
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	4,112,929	0.66
THIRTY SIXTH VILMAR PTY LTD	4,037,875	0.65
HONGMEN PTY LTD (HONGMEN FAMILY A/C)	3,756,191	0.60
	202,426,074	32.43

Shareholder information
31 December 2021

Unquoted equity securities

	Number on issue	Number of holders
Options over ordinary shares issued	3,000,000	1

Substantial holders
Substantial holders in the Company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
Laurence Freedman	69,483,912	11.13

Voting rights
The voting rights attached to ordinary shares are set out below:

Ordinary shares
On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

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South Yarra VIC 3141