PHOSLOCK ENVIRONMENTAL TECHNOLOGIES LIMITED
ABN 88 099 555 290
ANNUAL REPORT – 31 DECEMBER 2022

Annual Report 2022

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CORPORATE DIRECTORY

DIRECTORS

David Krasnostein AM – Chairman
and Non-Executive Director

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:
23 May 2023
Notification of the time and venue for the meeting will be released separately

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS

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

SHARE REGISTER

Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street
Sydney, NSW 2000 Australia
Phone: +61 2 8234 5000

AUDITOR

SW Audit
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.petwatersolutions.com

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 Shareholders,

2022 was an important transition year for the Company. We largely completed the remedial and restructuring work associated with past mismanagement issues; our shares resumed trading on the ASX; we refined our distribution model and made some important commercial appointments to support sales growth across our various regions; we made capital improvements to our Chinese factory to secure and increase manufacturing capacity; and we secured an exciting complementary new product, Phosflow, which opens-up additional market opportunities for the business.

Despite these important milestones, the rebuilding of our revenues was slower than we hoped. The markets for PET technologies are still in the process of recovering from COVID-related impacts and other disruptions. While this was disappointing, we remain steadfast in our view that governments and other authorities will need to address the ongoing and increased challenges of pollution in lakes and water catchments around the world, and our Company is ideally placed to offer proven and cost-effective solutions.

The Company has been successful in identifying new leads on projects; expanding into new geographic and market sectors; and building increased awareness of our remediation capabilities. Converting those leads and increased interest into firm contracts proved to be a much tougher undertaking throughout 2022.

Internal changes have improved governance, processes and systems. Legacy issues continue to have an impact, however, as continuing external investigations, such as that being pursued by the Australian Federal Police, require both management time and cost. We are committed to co-operating fully with those investigations in the hope that the responsible persons are brought to account.

Notwithstanding the challenges, the Board believes there is inherent value and opportunity in this business. We remain firmly focused on supporting management to ensure that value is realised and shareholders are rewarded for their patience and support.

We have engaged corporate advisors to explore all available options to achieve this objective and will keep shareholders informed as we progress this work during 2023.

On behalf of all shareholders I would like to acknowledge the efforts of PET management and staff, led by our CEO Lachie McKinnon, who remained energised, diligent and motivated during 2022 as the Company developed and implemented its new growth strategy.

Yours Sincerely

DAVID KRASNOSTEIN AM
CHAIRMAN

MANAGING DIRECTOR AND CEO'S REPORT

Dear Shareholders

While the FY 22 performance was disappointing, it did provide the opportunity to reset and restructure the business to better exploit potential opportunities after the significant challenges of the past few years.

During 2022 we focused on a number of initiatives to strengthen the business and improve our prospects for generating strong revenues going forward.

The company has moved to a 'distribution-led' go-to-market model which is expanding PET's addressable market across smaller and more repeatable projects in each region. These projects include smaller drinking catchments/reservoirs, private waterways, water treatment plants and mining operations requiring waste-water treatment.

This distribution-led approach allows PET's direct sales team to focus on large and more substantial lake projects of which there are many under consideration and at various stages of development. These larger waterways can take considerable time to get to the application stage. A number of smaller / mid-size projects were completed during 2022 in Europe, ANZ and Brazil. We will continue to place strategic focus on such projects in 2023.

In keeping with this new distribution model, we secured a strategic partnership with SSI Services (UK) Limited during the year. SSI Services is the specialist contracting division of South Staffordshire Plc, one of the UK's largest water utilities. PET also entered into a distribution relationship with Aquatic Solutions in the UK. These partnerships ensure a national approach across the UK that will deliver improved customer engagement, seamless application support and strong technical reach.

Our existing distribution arrangements in Brazil, with HydroScience, have generated good outcomes during 2022 and we expect these to continue in 2023. Relatively new distribution agreements have been put in place in Germany, The Netherlands and Belgium with discussions underway in Ireland and Switzerland.

In North America, we have appointed numerous distribution partners to support this model. Sales were made through this model in the latter part of 2022 and significant progress was made in developing opportunities in the larger lake and water body segment.

In Canada, progress on the regulatory front has been slow. Various meetings were held throughout 2022 with government officials and expert scientists in an attempt to progress our registration and management continues to see this registration as a top priority for the business.

Our success in securing rights to Phosflow opens-up important new opportunities for the business. Phosflow is a patented product that has been proven to be effective in the removal of phosphorus from freshwater sources including stormwater, agricultural run-off and municipal wastewater. As a solution to addressing flowable water remediation issues, Phosflow is highly complementary to PET's own patented technology and addresses one of the Company's key strategic objectives of broadening its service offerings into additional market segments.

We have now achieved initial sales of Phosflow and interest in the product is steadily building.

A number of other new product opportunities are being pursued via our internal research and development program and in collaborative programs with our partners.

On the manufacturing front, we have invested in upgrading and expanding capacity at our China production plant. This is an important interim step in our longer-term manufacturing strategy, which includes a future proposed second facility located in the US. As the business rebuilds and volume requirements increase, we will continue to assess the viability of proceeding with this second manufacturing plant, which can deliver positive supply chain and production efficiencies.

The PET team has been considerably strengthened over the past year, with key appointments made to support our commercial operations and other areas of the business. As travel restrictions eased in the post-COVID environment, it was critical that we began the process of resuming discussions on projects that had been paused over recent years and initiated discussions on potential new projects. We now have the resources and programs in place to effectively promote the benefits and value of Phoslock remediation technologies and services.

In 2023, our clear priority is to execute on our sales strategy by securing multiple projects across different regions and in different market segments. There is an inevitable time lag in converting leads to pilot applications and contracted sales, hence the Company is budgeting to incur a loss in this current financial year FY23 and losses may potentially continue in FY24 as the business continues to rebuild, with the consequences outlined in the directors report. We have engaged corporate advisors to explore all available options to maximize shareholder value and will keep shareholders informed as we progress this work.

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 2022.

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 and Non-Executive Director

Brenda Shanahan AO

Lachlan McKinnon

Barry Sechos

Bob Prosser

PRINCIPAL ACTIVITIES

The principal activities of the Group during the period were selling, marketing and developing of the new product Phosflow™, 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 $11,212,000 (31 December 2021: loss of $3,937,000).

Underlying Earnings/(Loss) Before Interest and Taxes ('Underlying EBIT') for the year is as follows:

	Consolidated	
	31 Dec 2022 $'000	31 Dec 2021 $'000
Revenue	3,022	6,297
Net Operating Profit/(Loss) after Tax ('NPAT')	(11,212)	(3,937)
Add: Finance costs	10	61
Add: Impairment/(reversals of impairment) of receivables	(94)	(2,441)
Add: Impairment of assets	2,213	1,631
Add: Foreign exchange losses	137	129
Less: Interest revenue	(86)	(92)
Less: Gain on remeasurement of lease liabilities	(18)	(3,247)
Underlying Earnings Before Interest and Taxes ('Underlying EBIT') *	(9,050)	(7,896)

* 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 Underlying EBIT provides a better reflection of its financial performance by facilitating a more representative comparison of financial performance between financial periods.

Operating results

FY 2022 was a period of reset and restructure in most key geographies. The changes were required to support the Company's strategic growth plans while ensuring appropriate levels of risk management and governance going forward. Revenue for the year was $3,022,000, down 52% on the $6,297,000 generated in the prior corresponding year. The business continued to face headwinds during the year, primarily as a result of project delays and the continued priority given by government authorities to managing COVID related health initiatives. The Company continues to execute on its diversification strategy, with the majority of sales generated across South America and modest contributions in Europe, ANZ, USA and China.

Gross profit was $1,396,000 for the full year (full year to 31 December 2021: $3,586,000). The gross profit margin was 45% for the full year (full year to 31 December 2021: 57%). 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 $9,050,000 compared to a loss of $7,896,000 in the prior corresponding period. Lower sales volume / revenue flowing to gross margin and higher operating expenses contributed to the result. Operating expenses were higher in the reporting period, as a result of expenditure on restructuring costs in China, expenses incurred in relation to manufacturing operations (both current plant and scoping of proposed expansion facility), ongoing legal and consulting expenses pertaining to the fraud and mismanagement investigations and consultancy costs relating to ongoing R&D activity, government lobbying to enable certification in Canada and the Company's manufacturing/supply chain strategy.

NPAT for the Group for the full year amounted to a loss of $11,212,000; (full year to 31 December 2021: loss of $3,937,000). It should be noted that the 31 December 2021 reported loss included a non-recurring non-cash gain on adjustments to lease liabilities of $3,247,000 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 which reduced the lease term, square footage and overall cost and is part of the ongoing effort to right-size the business.

During the period, the Company announced that the court in China ordered its debtor, YuXi City Ecosystem Department ('YuXi'), to pay the outstanding receivable in relation to XingYun Lake Project of RMB31,900,000 ($6,900,000) and interest of RMB1,200,000 ($260,000) by 18 October 2022. Despite the Company receiving a favourable court order, the defendant YuXi failed to pay any of the outstanding amount. Given this, 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 is in constant contact with XingYun Lake officials to secure payment. Should a payment plan be agreed and implemented, management will re-assess its judgement on the balance of that receivable.

Consistent with stated inventory accounting policy, within the 2022 period, updates were made to the Group's provision for impairment of finished goods, the details of which can be found in note 11 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 $7,070,000 (full year to 31 December 2021: outflow of $6,926,000).

Cash payments from customers for the year were $5,555,000 (full year to 31 December 2021: $8,766,000). Cash payments to suppliers and employees for the full year were $13,507,000 (full year to 31 December 2021: $15,469,000). Receipts from customers came primarily from the previously announced settlement with BHZQ in China, KQB (Kaiqinbo) China, which, after a protracted legal negotiation, agreed to partially pay $216,000 of the total $321,000 owing (the balance of which was paid on 13 January 2023), and from our Brazilian distributor. The increase in cash outflow relates primarily to higher employee payments, manufacturing related activity, and ongoing legal and consulting expenses as a result of the fraud and mismanagement investigations and reviews of the R&D program, government lobbying, and the Company's manufacturing/supply chain strategy.

New plant, equipment, and intangibles acquisitions for the current year totalled $628,000. This was mainly for the Chinese manufacturing facilities, R&D related activity and costs associated with patent applications.

Financial position

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 and net current asset position of $15,312,000 as at 31 December 2022 (2021: $26,011,000). 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 including the settlement of 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.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 29 September 2022, a new China subsidiary, Shanghai Phoslock Environmental Technologies Limited 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 2022, 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. These impacts include a redirection of funding towards priorities other than water remediation projects. 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 2022 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

The Company is budgeting to incur a loss in this current financial year FY23 and losses may potentially continue in FY24 as the business continues to rebuild sales revenues after the challenges of recent years, including project delays. Whilst we expect and are budgeting to achieve sales growth, we also expect operating expenses to increase in line with this growth. In addition, we will continue to incur significant legal and other costs associated with the ongoing regulatory reviews and cooperation with the relevant authorities. As the business grows, capital requirements associated with building inventories and expanding manufacturing activity will also increase. Whilst the business expects to utilise some of its available cash reserves to support these items, given the cash reserves as at 31 Dec 2022, the cashflow scenarios 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 over the period.

However, if customer demand for our services does not meet our expectations, our ability to generate revenue and meet our financial targets could be adversely affected. There is a risk that the Company will not achieve profitability in a timeframe that ensures we have sufficient cash flow and reserves to support the continued operation of the business past FY 2024.

Notwithstanding the risks, we believe there is inherent value and opportunity in the business. We remain firmly focused on ensuring that value is realised and that shareholders are rewarded for their patience and support. We have engaged corporate advisors to explore all available options to help us achieve this objective and will keep shareholders informed as we progress this work.

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.

REINSTATEMENT TO OFFICIAL QUOTATION ON THE ASX

On 16 September 2022, following confirmation of satisfaction of ASX's conditions for reinstatement, the suspension of trading in securities of Phoslock Environmental Technologies was lifted.

PRE-REINSTATEMENT DISCLOSURE OF PHOSLOCK ENVIRONMENTAL TECHNOLOGIES SECURITIES

PET's securities were suspended from official quotation on 21 September 2020 due to investigations into the Company's fraud and mismanagement issues, details of which can be found via the FY 2020 and FY 2021 Annual Reports and various ASX announcements (referred to below) throughout the period.

On 16 September 2022 the Company provided the following confirmations to satisfy the Conditions for reinstatement of its securities to official quotation on the ASX.

Regulatory

As indicated in previous announcement and disclosures, the Company self-reported the suspected fraud and mismanagement issues identified by current management and entered into an Investigation Cooperation Agreement ('ICA') with the Australian Federal Police ('AFP') in November 2021. This agreement requires the Company to engage cooperatively with the AFP.

The Company's engagement with the AFP is ongoing. In accordance with the ICA between AFP and the Company, the Company has committed to cooperating with the AFP which will be a factor for the Commonwealth Director of Public Prosecutions ('CDPP') when deciding whether or not to prosecute the Company or offer it a Deferred Prosecution Agreement should that option become available under Australian Law. Even if the CDPP ultimately decides to prosecute the Company, PET's cooperation will also be a mitigating factor for sentencing purposes in respect of penalties to be imposed on the Company.

The ICA deals primarily with offences in the nature of bribery and foreign corruption. There are other offences and proceedings which may be of relevance to the Company's past actions, some of which are within the purview of the AFP, while others are the domain of other regulatory agencies. The Company intends to keep progressing its management of these matters in the manner reflected in its agreements with the AFP.

The Company has also engaged in discussions with the Australian Securities and Investments Commission ('ASIC'). ASIC has made enquiries in relation to PET and its financial accounts that have been lodged with ASIC. The AFP has also referred certain allegations arising from the Company's engagement with the AFP under the ICA to ASIC for its consideration.

There is a risk that the Company will be exposed to judgments, fines and penalties arising from regulatory activity including the AFP's investigation and ASIC's inquiries that may have an adverse impact on its financial performance and financial position.

Claims by or against other persons involved in the Company's affairs

The 16 November 2021 and 25 May 2022 Announcements foreshadowed claims brought by PET against individuals including former directors Zhigang Zhang and Rob Schuitema. The 16 September 2022 Announcement stated that "After carefully considering (1) inquiries and investigations currently on foot by regulators, with compulsory powers to access documents and information, (2) the significant resources that would be expended by the Company and its key personnel in pursuing these claims, (3) the quantum of potential compensation that could be obtained by the Company, should the claims be successful, the Company has determined to await the outcome of inquiries by regulatory agencies before the filing of legal claims against the aforementioned parties."

The Company notes that in many circumstances, the initiation of a claim can accelerate or heighten the prospect of counterclaims, or of separate claims relating to similar matters. In this regard, and more generally in relation to the prospect of claims being made against the Company, the Company makes the following statements:

(1) The Company has not received any third-party claims, or letters of demand relating to these matters.

(2) As far as the Company is aware, no proceedings have been filed against it in relation to these matters.

(3) The Company's perspective on such claims, should they arise, is that they will be defended and prosecuted with the objective of liability being borne by the actual wrongdoers to the maximum extent possible, and not by the Company's shareholders.

(4) Having expended considerable time, effort and cost in investigating these fraud and mismanagement issues, the Company believes it is well placed to defend any claims that should arise with the objective stated above (namely that liability is borne by those wrongdoers).

(5) If any claims are made against the Company, or if these risks progress or develop, the Company will continue to keep shareholders appraised of such developments in a timely manner, and in accordance with the law and the ASX Listing Rules.

Further, following the fraud and mismanagement issues, the Company has been, and continues to be, exposed to a higher risk of being involved in proceedings, claims and disputes, whether initiated by the Company or persons previously involved with the Company's affairs. Any litigation, claim or dispute relating to the Company's past fraud and mismanagement issues may have an adverse impact on the financial performance and financial position of the Company.

INFORMATION ON DIRECTORS

Name	**David Krasnostein AM**
Title	Non-Executive Chairman and Non-Executive
Qualifications	Director B. 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 also 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)	None
Special responsibilities	Chairman of the Board, Chairman of Nomination Committee, Member of Remuneration Committee and Audit and Risk Committee
Interests in shares	1,164,124
Interests in options	None

Name	**Brenda Shanahan AO**
Titl	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, S G Hiscock 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	Member 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 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
Interests in shares	1,325,000 ordinary shares
Interests in options:	None

Name	**Barry Sechos**
Title	Non-Executive Director
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 and Risk Committee
Interests in shares:	None
Interests in options:	None

Name	**Bob Prosser**
Title	Non-Executive Director
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	416,666
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

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 2022, 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	11	11	4	4	8	8
Brenda Shanahan AO	11	11	4	4	8	8
Lachlan McKinnon	11	11	4	4	8	8
Barry Sechos	10	11	4	4	8	8
Bob Prosser	11	11	4	4	8	8

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)

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 2022.

Lachlan McKinnon
Brenda Shanahan AO
David Krasnostein AM
Barry Sechos
Robert Prosser
Matthew Parker
Viktor Li (ceased being a KMP on 1 January 2022)
Andrew Winks (ceased being a KMP on 1 January 2022 and retired on 8 February 2022)

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 concluded a review of the remuneration of key executives 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.

Voting and comments made at the Company's 2021 Annual General Meeting ('AGM')

At the AGM held on 27 May 2022, 86.57% of the votes received supported the adoption of the remuneration report for the year ended 31 December 2021. 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.

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 $527,800.00 pa
Short-term incentive:	30% base salary (maximum) pa subject to achieving a range of KPI's determined by the Board.

Name:	Matthew Parker
Title:	CFO / Company Secretary
Agreement commenced:	20 March 2020
Term of agreement:	Ongoing - no fixed minimum term
Details:	Annual base salary of $384,600.00 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 2022	**Cash salary and fees $**	**Cash bonus $**	**Allowance $**	**Non-monetary $**	**Super-annuation $**	**Long service leave $**	**Equity-settled $**	**Total $**
Non-Executive Directors:								
David Krasnostein AM	122,500	-	-	-	12,556	-	-	135,056
Brenda Shanahan AO	109,091	-	-	-	11,182	-	-	120,273
Barry Sechos	110,000	-	-	-	-	-	-	110,000
Robert Prosser	109,091	-	-	-	11,182	-	-	120,273
Executive Directors:								
Lachlan McKinnon	512,425	160,133	-	8,435	27,881	25,340	-	734,214
Other Key Management Personnel:								
Matthew Parker	373,375	153,084	-	4,250	26,753	16,555	-	574,017
	1,336,482	313,217	-	12,685	89,554	41,895	-	1,793,833

	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	14,172	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.

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 2022**	**31 Dec 2021**	**31 Dec 2022**	**31 Dec 2021**	**31 Dec 2022**	**31 Dec 2021**
Non-Executive Directors:						
David Krasnostein AM	100%	100%	-	-	-	-
Brenda Shanahan AO	100%	100%	-	-	-	-
Barry Sechos	100%	100%	-	-	-	-
Bob Prosser	100%	100%	-	-	-	-
Executive Directors:						
Lachlan McKinnon	78%	69%	22%	31%	-	-
Other Key Management Personnel:						
Matthew Parker	73%	66%	27%	34%	-	-
Nigel Trail	-	100%	-	-	-	-
Andrew Winks	-	100%	-	-	-	-
Zhaopeng (Jason) Hai	-	93%	-	7%	-	-
Viktor Li	-	84%	-	16%	-	-

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 2022.

Performance Rights

There were no performance rights over ordinary shares issued to directors and other key management personnel as part of compensation that were outstanding as at 31 December 2022.

ADDITIONAL INFORMATION

The earnings of the Group for the five years to 31 December 2022 are summarised below:

	2022 $'000	2021 $'000	2020 $'000	2019 $'000	2018 $'000
Sales revenue	3,022	6,297	6,878	19,757	15,707
Underlying EBIT	(9,050)	(7,896)	(7,396)	352	3,744
Profit/(loss) after income tax	(11,212)	(3,937)	(25,734)	(1,083)	108

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 and Non-Executive Director	45,470	-	1,118,654	-	1,164,124
Brenda Shanahan AO	1,506,500	-	-	-	1,506,500
Lachlan McKinnon	500,000	-	825,000	-	1,325,000
Barry Sechos	-	-	-	-	-
Bob Prosser	-	-	416,666	-	416,666
Matthew Parker	-	-	-	-	-
	2,051,970	-	2,360,320	-	4,412,290

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)	-

* Represents cancellation of options as the performance condition was not met.

This concludes the remuneration report, which has been audited.

BUILDING CAPABILITIES TO GROW

PET is pursuing a 'distribution-led' go to market model complemented by direct sales to large lake projects. To enable this strategy, we have made a number of recent appointments to build capability to deliver on our commercial objectives in key target markets:

Strengthening US team

In late 2022, PET appointed Bush Heathman as General Manager USA. Bush spent 18 years travelling and working with major energy companies developing and exploring sustainable energy production methods as well as working in operations management. Bush is based in Casper Wyoming and has the skills and experience to oversee the construction of PET's proposed second manufacturing plant as well as lead the sales effort.

Working with Bush is Harry Knight, an aquatic specialist with a strong network across lake management and with the applicators that are critical to delivery of Phoslock. Harry has been with the business since January 2021 and has been instrumental in improving the strength of the distribution model in the US.

Rounding out our US team is Greg Wagner, who – like Bush – joined the team in late 2022. Working as the Technical Sales Manager for the Lakes region of the US, Greg has 24 years of technical sales experience in water treatment in the industrial and municipal applications to draw from. He is opening opportunities for Phoslock and Phosflow, with significant interest from industrial customers looking for novel solutions to improve environmental and efficacy of treatment.

The skills and experience of Bush, Harry and Greg are complementary, enabling this two-pronged approach of direct management of larger projects supported by deep technical capability, with well supported distribution relationships.

Expanding reach to replicate success across Europe

In early 2023, Madalina Dumitrescu was appointed as Business Development Manager, Europe based in France. Madalina's appointment adds reach to PET's business development prospects in Europe working with General Manager Damian Whelan and Applications Manager Derek Johnson based in Germany.

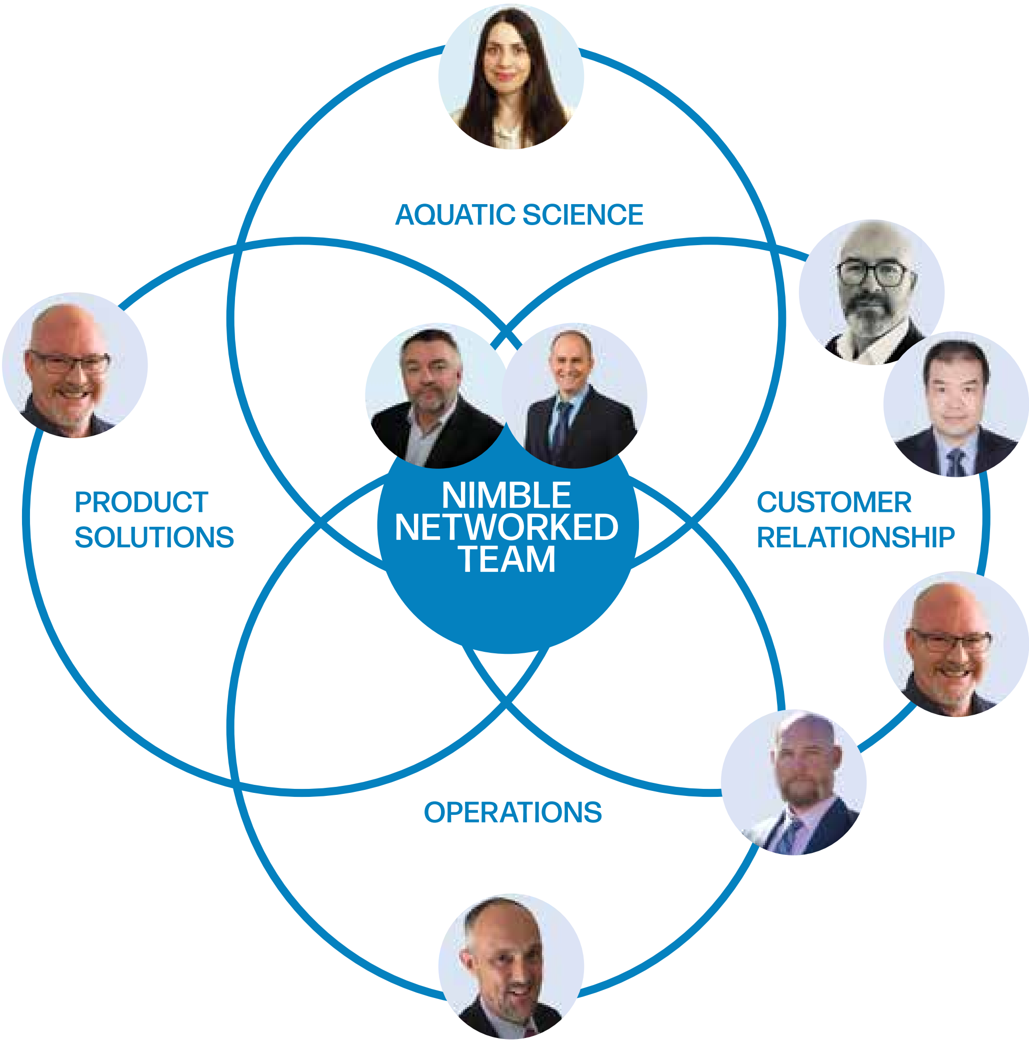
Madalina will start in May 2023 and brings hands-on water experience to the group with recent roles in sales and water engineering enterprises in Switzerland, France and her native country of Romania.

Securing expertise in Australia and the Pacific

We are also pleased to have extended the services of Dr Michael Doyle, who not only leads the product development portfolio globally and has been instrumental to the development of our Phosflow product, but also has also secured a number of trial projects in Australia and New Zealand to improve environmental impacts and grow sales of Phoslock and Phosflow. In April / May of this year, the City of Busselton, Western Australia will begin a significant trial of Phosflow with a complementary application of Phoslock for the Vasse River planned for later in the year, demonstrating the two products working together as a holistic approach to phosphorus management in waterways.

Operations and logistics capability building China

In addition to acquiring talent as described above we are also working to build capabilities and teamwork in our operations in China. Despite reducing employee numbers in China from 35 to 18, due to the decision to make the sales team redundant in mid-2022, we have seen an uplift in levels of engagement and performance in manufacturing and logistics due to Viktor Li empowering and supporting the team to lead a suite of improvement initiatives, creating on-the-job opportunities for growth and development as well as improved business outcomes.



LIVING PET 3CS CULTURE

Working with our leadership team in early 2022, we launched our 3Cs culture as our compass for everyday decision-making.

Our 3Cs culture invites our people to:

Care	Collaborate	Be Courageous
Care for customers, the environment, our communities, and each other - be curious and find ways to improve experience and impact. Keep the safety of customers, agents, partners, contractors, workmates and ourselves front of mind, always.	Bring your strengths to work and invite the same of others - offer and recieve help. Embrace the diversity that is our strength. Listen and communicate openly. Think and adapt together - making decisions weighing risks and opportunities.	Have the conviction that continued focus on the things that make sense in the long run are always worth doing. Stand up for our Culture and speak up if you see something that is not right.

Our 3Cs culture is fundamental to the delivery of the PET strategy and is the glue to build the Nimble Networked Team that enables us to maximise opportunities globally.

An example of the 3Cs in action:

Working together to improve environmental impacts in dairy industries across the globe

The agreement to share data obtained in product trials amongst Dairy Groups in Ireland and in New Zealand is a great example of the collaborative outward looking approach of PET staff across Europe and ANZ to facilitate this kind of partnership at an industry level. This open approach to data sharing will yield improved outcomes for individual customers as well as the industry as a whole, reflecting our vision to help solve global water quality problems and address growing environmental, economic and human health challenges.

IMPROVING ENGAGEMENT TOGETHER

Higher staff engagement levels are correlated with improved sales, productivity, customer service and safety performance as well as employee wellbeing (Gallup). For this reason PET embarked on a program to implement regular Gallup Q12 surveys and track staff engagement as an input metric, involving our team in the determination and implementation of improvement ideas. We have run the survey tool in April and October 2022; a third survey is scheduled for April 2023 and we intend to run the surveys annually thereafter.

Across the first two surveys, the engagement mean increased from 4.00 to 4.28 (out of a possible score of 5) - both represent third quartile performance against the Gallup Overall Database. This increase was largely driven by the high levels of engagement in Operations in China following a well orchestrated program of capacity building.

PET strengths as measured against the Overall Gallup Database are:

- *my opinions count (now top quartile against the Gallup database),*
- *belief in the mission and purpose of the company, and*
- *having opportunities to progress, learn and grow.*

The largest improvement in PET scores was in the sense that my supervisor or someone cares about me, which is pleasing as it is a foundation of our 3Cs Culture. (Again, this was positively influenced by the work on improving manufacturing and logistics in China.)

The only dimension to drop in overall scores was knowing what's expected of me, which has been partly a reflection of restructuring and the need to build sales capacity in targeted markets at that time. With a number of key appointments in the US and Europe since and the continuing cadence on reviewing progress against goals as a team, we are aiming to see improvement in the April 2023 results.

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

SHARES UNDER OPTION

There were no unissued ordinary shares of Phoslock Environmental Technologies Limited under option outstanding at the date of this report.

SHARES ISSUED ON THE EXERCISE OF OPTIONS

There were no ordinary shares of Phoslock Environmental Technologies Limited issued on the exercise of performance rights during the year ended 31 December 2022 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 SW AUDIT

There are no officers of the Company who are former partners of SW Audit.

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
28 February 2023
Melbourne

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 2022 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.

SW

SW Audit (formerly ShineWing Australia)
Chartered Accountants

Hayley Underwood
Partner

Melbourne, 28 February 2023

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CORPORATE GOVERNANCE STATEMENT

INTRODUCTION

Phoslock Environmental Technologies Limited (PET) is committed to creating 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 28 February 2023 can be found at: www.petwatersolutions.com/investor-centre/corporate-governance/ 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 is 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 Committee

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 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 Committee charter can be found on the Company's website www.petwatersolutions.com/investor-centre/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 the Company's Audit & Risk Committee Charter can be found on the Company's website www.petwatersolutions.com/investor-centre/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

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.

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 the Company's Code of Conduct can be found on the Company's website www.petwatersolutions.com/investor-centre/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 the Company's Share Trading Policy can be found on the Company's website at www.petwatersolutions.com/investor-centre/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 of interest 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 with the Company 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 the Company's Whistleblower Policy is to provide clear guidance on how the Company approaches and manages reports of this nature. With its Whistleblower Policy, the Company aims to ensure that:

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

A copy of the Whistleblower Policy can be found on the Company's website www.petwatersolutions.com/investor-centre/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. A copy of the Anti-bribery and Corruption policy can be found on the Company's website www.petwatersolutions.com/investor-centre/corporate-governance/

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.

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

A copy of the Shareholder Communications Policy can be found on the Company's website www.petwatersolutions.com/investor-centre/corporate-governance/.

ASX Principle		Company Status	Reference/Comment
PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT			
The listed entity should disclose:			
1.1(a)	Roles & Responsibilities of Board and Management	A	Roles and responsibilities of Board and Management are defined; Board reviewing and updating these on a regular basis
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 on a regular basis
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	The Board adopted a Diversity and Inclusion policy in FY 2022. This can be found at www.petwatersolutions.com/investor- centre/corporate-governance/
1.6(a)	Board should have a 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 are 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 are independent
2.3(b)	Company should detail reasons why a Director is independent	A	Company has detailed on page 35 of the Annual Report 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. Throughout the period, Directors have been provided with various training opportunities
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

ASX Principle			Company Status & Reference/Comment

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	The 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	The Audit and Risk Committee is chaired by an Independent Director
4.1(a)(3)	Audit Committee should have a charter which is published	A	The 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	Relevant experience of each member of Audit Risk Committee is set out in the Company's Annual Report and on the Company's website
4.1(a)(5)	Report the number of meetings of the Audit Directors at the Audit and Risk Committee meetings Committee and those who attended	A	The number of meetings and attendance of 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 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 the Company's AGM and are available to answer questions

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

5.1(a)	Company should have a written policy for complying with the ASX Listing Rules Continuous Disclosure	A	The 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	The 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

ASX Principle			Company Status & Reference/Comment
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	The 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	The 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	The Company has worked with its Share Registrar to obtain email addresses of all its shareholders to enable documents to be sent electronically
PRINCIPLE 7: RECOGNISE AND MANAGE RISK			
7.1	Company should have a Risk Management Committee	A	The 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	The Company reports Risk Management reviews in Directors' Report to security holders
7.3(a)	Company should disclose if it has an internal audit function	A	The 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	The 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	The Company discloses major risks in Directors' Report in Annual Report

ASX Principle			Company Status & Reference/Comment
PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY			
8.1(a)	Company should have a Remuneration Committee	A	The Company has a Remuneration Committee
8.1(a)(1)	Remuneration Committee should comprise at least three Directors, majority of whom are independent	A	The Remuneration Committee comprises three Directors, 2 of which are independent
8.1(a)(2)	Remuneration Committee should be chaired by an Independent Director	A	The 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	The 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 Remuneration Committee is set out in the Company's Annual Report and on the Company's website
8.1(a)(5)	Report the number of meetings of the Remuneration Committee and those who attended	A	The number of meetings and attendance of Directors at the Remuneration Committee meetings is set out in the Company's Annual Report
8.2	Company should disclose remuneration policies	A	These are detailed in the 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

	Note	Consolidated 31 Dec 2022 $'000	Consolidated 31 Dec 2021 $'000
Revenue			
Sales revenue	5	3,022	6,297
Cost of sales		(1,626)	(2,711)
Gross profit		1,396	3,586
Other income	6	913	3,958
Interest revenue calculated using the effective interest method		86	92
Expenses			
Distribution		(147)	(121)
Marketing		(211)	(202)
Occupancy		(332)	(82)
Director, listing and professional fees		(5,302)	(6,598)
Administration		(5,486)	(5,319)
Reversal of impairment of receivables	10	94	2,441
Impairment of assets	7	(2,213)	(1,631)
Finance costs	7	(10)	(61)
Loss before income tax expense		(11,212)	(3,937)
Income tax expense	8	-	-
Loss after income tax expense for the year attributable to the owners of Phoslock Environmental Technologies Limited		(11,212)	(3,937)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		36	107
Other comprehensive income for the year, net of tax		36	107
Total comprehensive income for the year attributable to the owners of Phoslock Environmental Technologies Limited		(11,176)	(3,830)
		Cents	**Cents**
Basic earnings per share	30	(1.80)	(0.63)
Diluted earnings per share	30	(1.80)	(0.63)

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

	Note	Consolidated 31 Dec 2022 $'000	Consolidated 31 Dec 2021 $'000
Assets			
Current assets			
Cash and cash equivalents	9	14,456	22,991
Trade and other receivables	10	681	2,781
Inventories	11	2,420	3,305
Financial assets		127	126
Other assets	12	433	633
Total current assets		18,117	29,836
Non-current assets			
Property, plant and equipment	13	-	15
Right-of-use assets	14	-	322
Intangibles	15	-	241
Total non-current assets		-	578
Total assets		18,117	30,414
Liabilities			
Current liabilities			
Trade and other payables	16	2,104	2,935
Contract liabilities	17	2	88
Lease liabilities	18	491	520
Employee benefits		208	282
Total current liabilities		2,805	3,825
Non-current liabilities			
Lease liabilities	18	464	772
Employee benefits		19	-
Provisions	19	188	-
Total non-current liabilities		671	772
Total liabilities		3,476	4,597
Net assets		14,641	25,817
Equity			
Issued capital	20	92,398	92,398
Reserves	21	1,128	1,092
Accumulated losses		(78,885)	(67,673)
Total equity		14,641	25,817

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

Consolidated	Issued capital $'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

Consolidated	Issued capital $'000	Foreign currency translation reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 January 2022	92,398	1,092	(67,673)	25,817
Loss after income tax expense for the year	-	-	(11,212)	(11,212)
Other comprehensive income for the year, net of tax	-	36	-	36
Total comprehensive income for the year	-	36	(11,212)	(11,176)
Balance at 31 December 2022	92,398	1,128	(78,885)	14,641

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

	Note	Consolidated 31 Dec 2022 $'000	Consolidated 31 Dec 2021 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		5,555	8,766
Receipts from research and development grant and other income		798	215
Payments to suppliers and employees (inclusive of GST)		(13,507)	(15,469)
Interest received		84	87
Income taxes (paid)		-	(525)
Net cash used in operating activities	29	(7,070)	(6,926)
Cash flows from investing activities			
Payments for property, plant and equipment		(545)	(51)
Payments for intangibles		(83)	(92)
Proceeds from disposal of property, plant and equipment		-	2
Net cash used in investing activities		(628)	(141)
Cash flows from financing activities			
Repayment of lease liabilities		(687)	(480)
Net cash used in financing activities		(687)	(480)
Net decrease in cash and cash equivalents		(8,385)	(7,547)
Cash and cash equivalents at the beginning of the financial year		22,991	30,441
Effects of exchange rate changes on cash and cash equivalents		(150)	97
Cash and cash equivalents at the end of the financial year	9	14,456	22,991

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

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 28 February 2023. 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.

The following Accounting Standards and Interpretations are most relevant to the Group:

AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments

AASB 2020-3 was issued in June 2020 and is applicable to annual periods beginning on or after 1 January 2022. This standard amends certain accounting standards including the following:

(i) AASB 9 'Financial Instruments' where the amendments clarify the net fees paid or received to be included in the present value calculations of cash flows of debt instruments for the purposes of ascertaining extinguishment where there has been a change in terms. It also clarifies the treatment of costs or fees both on extinguishment of a debt instrument or in cases where a modified debt instrument has not been extinguished;
(ii) AASB 116 'Property, Plant and Equipment' which requires an entity to recognise the sales proceeds of items produced and their related cost in profit or loss where such items relate to property, plant and equipment which is being prepared for its intended use (instead of deducting the net proceeds from the cost of the asset). The related costs shall be measured in accordance with AASB 102. Additional related disclosures are also required; and
(iii) AASB 137 'Provisions, Contingent Liabilities and Contingent Assets' – clarifies that the unavoidable costs of meeting obligations in an onerous contract include both the incremental costs of fulfilling the contract such as direct labour and materials and an allocation of other costs related directly to fulfilling the contract such as depreciation.

The amendments do not have a material impact on the financial statements.

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 (i) the Group's strong cash position and net current asset position of $15,312,000 as at 31 December 2022 (31 December 2021: $26,011,000), and (ii) the Group having no external loan facilities and no litigation matters currently against it.

Note 2. Significant accounting policies (continued)

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 31.

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 2022 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 Maker ('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.

Note 2. Significant accounting policies (continued)

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.

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 at the point of grant receipt.

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.

Note 2. Significant accounting policies (continued)

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.

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 the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxable authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis or to realise the asset and settle the liabilities simultaneously in future periods.

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.

Note 2. Significant accounting policies (continued)

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.

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
IT equipment	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.

Intangible assets
Intangible assets not acquired as part of a business combination are initially recognised at cost. 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.

Note 2. Significant accounting policies (continued)

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.

Provisions
Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

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.

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.

Issued capital
Ordinary shares are classified as equity.

Note 2. Significant accounting policies (continued)

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.

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 2022. 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.

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

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.

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 is calculated based on the information available at the time of preparation. The actual credit losses in future years may be higher or lower. See note 10 for further information.

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. See note 11 for further information.

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 assessing the value of the asset at fair value less costs of disposal and using value-in-use models which incorporate a number of key estimates and assumptions.

Note 4. 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 Maker ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM reviews 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 segments 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.

Note 4. 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 2022, approximately 75% of the Group's external revenue was derived from sales to three customers (31 December 2021: approximately 72% of the Group's external revenue was derived from sales to four customers).

Operating segment information

Consolidated - 31 Dec 2022	Australia/NZ $'000	Europe/UK $'000	US/Canada/ Brazil $'000	China $'000	Eliminations $'000	Total $'000
Revenue						
Sales to external customers	159	223	2,578	62	-	3,022
Intersegment sales	3	-	-	129	(132)	-
Total sales revenue	162	223	2,578	191	(132)	3,022
Interest revenue	83	-	-	3	-	86
Total revenue	245	223	2,578	194	(132)	3,108
Underlying EBIT	(7,127)	(622)	45	(1,567)	221	(9,050)
Interest revenue	83	-	-	3	-	86
Gain on remeasurement of lease liabilities	18	-	-	-	-	18
Reversal of impairment of receivables	-	-	-	94	-	94
Impairment of assets	(18,034)	(3)	(407)	(1,260)	17,491	(2,213)
Foreign exchange loss	(177)	(3)	-	43	-	(137)
Finance costs	25	-	(35)	-	-	(10)
Profit/(loss) before income tax expense	(25,212)	(628)	(397)	(2,687)	17,712	(11,212)
Income tax expense						-
Loss after income tax expense						(11,212)
Assets						
Segment assets	1,902	132	1,007	12,373	2,703	18,117
Total assets						18,117
Liabilities						
Segment liabilities	4,098	103	1,747	9,681	(12,153)	3,476
Total liabilities						3,476

Note 4. Operating segments (continued)

Consolidated - 31 Dec 2021	Australia/NZ Restated* $'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	(14,715)	-	-	(1,367)	14,451	(1,631)
Foreign exchange loss	(44)	-	-	(85)	-	(129)
Finance costs	(8)	-	-	(53)	-	(61)
Profit/(loss) before income tax expense	(23,794)	1,354	138	3,166	15,199	(3,937)
Income tax expense						-
Loss after income tax expense						(3,937)
Assets						
Segment assets	26,306	3,005	10	7,934	(6,841)	30,414
Total assets						30,414
Liabilities						
Segment liabilities	4,381	2,371	9	1,898	(4,062)	4,597
Total liabilities						4,597

* The ANZ profit or loss before income tax expense and total assets were restated in relation to the impairment of the Company's investments in subsidiaries as disclosed in note 31 'Parent entity information'.

Note 5. Revenue

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

	Consolidated 31 Dec 2022 $'000	Consolidated 31 Dec 2021 $'000
Geographical regions		
Australia/NZ	159	358
Europe/UK	223	4,068
US/Canada/Brazil	2,578	1,053
China	62	818
	3,022	6,297
Timing of revenue recognition		
Goods transferred at a point in time	2,825	5,927
Services transferred at a point in time	197	370
	3,022	6,297

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 6. Other income

	Consolidated 31 Dec 2022 $'000	Consolidated 31 Dec 2021 $'000
Gain on remeasurement of lease liabilities	18	3,247
Research and development grants	230	(17)
Other income	665	728
Other income	913	3,958

Gain on remeasurement of lease liabilities
Refer to note 18 for more information.

Other
Other includes freight collected from customers for product transportation.

Note 7. Expenses

	Consolidated 31 Dec 2022 $'000	Consolidated 31 Dec 2021 $'000
Loss before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	6	49
Buildings right-of-use assets	55	74
Office equipment right-of-use assets	2	7
Total depreciation	63	130
Amortisation		
Patents	7	12
Total depreciation and amortisation	70	142
Impairment		
Inventories	700	870
Plant and equipment	712	58
Rights-of-use assets	481	703
Patents	320	-
Total impairment	2,213	1,631
Finance costs		
Interest and finance charges paid/payable on lease liabilities	10	61
Net foreign exchange loss		
Net foreign exchange loss	137	129
Leases		
Short-term lease payments	287	31
Employee benefits expense		
Employee benefits expense excluding superannuation	3,944	4,026
Defined contribution superannuation expense	159	152
Total superannuation expense	4,103	4,178
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 at 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 had been recognised within profit or loss and was subsequently reversed. As of 31 December 2021, the Group finalised the lodgements with the respective tax authorities. Per the final notice of assessment, the final tax liability was $223,000, of which $163,000 was paid in December 2021 and the remaining $60,000 as at 31 December 2022.

Note 8. Income tax

	Consolidated	
	31 Dec 2022 $'000	31 Dec 2021 $'000
Numerical reconciliation of income tax expense and tax at the statutory rate		
Loss before income tax expense	(11,212)	(3,937)
Tax at the statutory tax rate of 25% (2021: 26%)	(2,803)	(1,024)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Impairment of assets	583	(1,116)
	(2,220)	(2,140)
Current year tax losses not recognised	1,630	2,275
Foreign subsidiaries	590	(135)
Income tax expense	-	-

	Consolidated	
	31 Dec 2022 $'000	31 Dec 2021 $'000
Tax losses not recognised		
Unused tax losses for which no deferred tax asset has been recognised	53,051	46,581
Potential tax benefit @ 25%	13,263	11,645

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 2022 $'000	31 Dec 2021 $'000
Deferred tax assets not recognised		
Deferred tax assets not recognised comprises temporary differences attributable to:		
Tax losses	13,263	12,111
Accruals and provisions	211	306
Total deferred tax assets not recognised	13,474	12,417

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.

Note 9. Cash and cash equivalents

	Consolidated	
	31 Dec 2022 $'000	31 Dec 2021 $'000
Current assets		
Cash at bank	14,456	22,991

Note 10. Trade and other receivables

	Consolidated	
	31 Dec 2022 $'000	31 Dec 2021 $'000
Current assets		
Trade receivables	8,497	10,843
Less: Allowance for expected credit losses	(7,816)	(8,062)
	681	2,781

Allowance for expected credit losses
On 7 July 2022, the Company announced that the court in China ordered its debtor, YuXi City Ecosystem Department ('YuXi'), the pay the outstanding receivable in relation to XingYun Lake Project of RMB31,900,000 ($6,900,000) and interest of RMB1,200,000 ($260,000) by 18 October 2022. Despite the Company receiving a favourable court order, the defendant YuXi, which does not deny the outstanding debt, has failed to pay any of the outstanding amount to date. Given this, 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 is in constant contact with XingYun Lake officials to secure payment. Should a payment plan be agreed and implemented, management will re-assess its judgement on the balance of that receivable.

Within the period a local distributor in China, KQB (Kaiqinbo), which, after a protracted legal negotiation paid $216,000 of the total $321,000 owing, the balance of which was paid on 13 January 2023. The full amount was recognised in the P&L during the period as at 31 December 2022.

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 2022 $'000	31 Dec 2021 $'000	31 Dec 2022 $'000	31 Dec 2021 $'000
Not overdue	556	1,019	-	-
0 to 3 months overdue	250	81	250	-
3 to 6 months overdue	11	688	-	-
Over 6 months overdue	7,680	9,055	7,566	8,062
	8,497	10,843	7,816	8,062

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

	Consolidated	
	31 Dec 2022 $'000	31 Dec 2021 $'000
Opening balance	8,062	10,350
Additional impairment reversals recognised	(94)	(3,047)
Foreign exchange translation	(152)	759
Closing balance	7,816	8,062

Note 11. Inventories

	Consolidated	
	31 Dec 2022 $'000	31 Dec 2021 $'000
Current assets		
Raw materials - at cost	873	877
Finished goods - at cost	3,692	4,238
Less: Provision for impairment	(2,145)	(1,810)
	1,547	2,428
	2,420	3,305

The Group concluded that its inventory holding exceeded short term demand in light of the continued impacts of COVID-19 and reduced business activity. 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 has concluded to impair all or portions of inventory that are either 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 12. Other assets

	Consolidated	
	31 Dec 2022 $'000	31 Dec 2021 $'000
Current assets		
Prepayments	289	471
Other deposits	-	130
Other current assets	144	32
	433	633

Note 13. Property, plant and equipment

	Consolidated	
	31 Dec 2022 $'000	31 Dec 2021 $'000
Non-current assets		
Plant and equipment - at cost	2,040	2,283
Less: Accumulated depreciation	(519)	(793)
Less: Impairment	(1,521)	(1,475)
	-	15
Motor vehicles - at cost	66	76
Less: Accumulated depreciation	(66)	(76)
	-	-
Work-in-progress - at cost	529	-
Less: Impairment	(529)	-
	-	-
	-	15

Note 13. 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	Work-in-progress $'000	Total $'000
Balance at 1 January 2021	73	-	73
Additions	50	-	50
Disposals	(5)	-	(5)
Exchange differences	4	-	4
Impairment of assets	(58)	-	(58)
Depreciation expense	(49)	-	(49)
Balance at 31 December 2021	15	-	15
Additions	178	528	706
Disposals	(4)	-	(4)
Exchange differences	-	1	1
Impairment of assets	(183)	(529)	(712)
Depreciation expense	(6)	-	(6)
Balance at 31 December 2022	-	-	-

Impairment

As at 31 December 2022 and consistent with the testing at 30 June 2022 and 31 December 2021, a value in use model was created to test whether the recoverable amount of the China cash generating unit ('CGU') exceeded its carrying value 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 (6,000 tones 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 China 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.

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 operations.

Note 14. Right-of-use assets

	Consolidated 31 Dec 2022 $'000	Consolidated 31 Dec 2021 $'000
Non-current assets		
Land and buildings - right-of-use	2,142	1,959
Less: Accumulated depreciation	(114)	(60)
Less: Impairment	(2,028)	(1,580)
	-	319
Office equipment - right-of-use	14	14
Less: Accumulated depreciation	(13)	(11)
Less: Impairment	(1)	-
	-	3
	-	322

Note 14. Right-of-use assets (continued)

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 2021	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
Additions	240	-	240
Lease modifications	(24)	-	(24)
Impairment of loss recognised	(480)	(1)	(481)
Depreciation expense	(55)	(2)	(57)
Balance at 31 December 2022	-	-	-

Impairment
As at 31 December 2022, consistent with the 30 June 2022 and 31 December 2021 financial statements, a value in use model was used to estimate the recoverable amount of the Group's cash generating units ('CGUs') based on the present value of the future cash flows expected to be derived from each of the Group's CGUs.

The recoverable amount of the CGUs was lower than the carrying amount of the assets within the Group CGUs and therefore an impairment loss was recognised on right-of-use assets (primarily the head office lease at Como Centre in South Yarra).

This impairment loss reflects the uncertainty regarding the future operating performance of the Group given the low volumes that are currently being achieved. In light of the loss incurred in the current year, future projections not being above previously announced break-even volume of 6,000 tonnes p/a, volatile market conditions associated with COVID-19 and uncertainty regarding the performance of the Group’s operations an impairment provision against intangible assets was accounted for in the period.

For other AASB 16 and lease related disclosures, refer to the following:
- Refer note 7 for details of depreciation on right-of-use assets, interest on lease liabilities and other lease payments;
- Refer note 18 for lease liabilities;
- Refer note 23 for undiscounted future lease commitments; and
- Refer consolidated statement of cash flows for repayment of lease liabilities

Note 15. Intangibles

	Consolidated	
	31 Dec 2022 $'000	31 Dec 2021 $'000
Non-current assets		
Patents - at cost	367	281
Less: Accumulated amortisation	(47)	(40)
Less: Impairment	(320)	-
	-	241

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 2021	187
Additions	66
Amortisation expense	(12)
Balance at 31 December 2021	241
Additions	86
Impairment of assets	(320)
Amortisation expense	(7)
Balance at 31 December 2022	-

Impairment

As at 31 December 2022, consistent with the 30 June 2022 and 31 December 2021, a value in use model was used to estimate the recoverable amount of the Group's CGUs based on the present value of the future cash flows expected to be derived from the CGUs. The recoverable amount of the CGUs was lower than the carrying amount of the assets within the CGU's and therefore an impairment loss was recognised on the patents (intangible assets).

This impairment loss reflects the uncertainty regarding the future operating performance of the Group given the low volumes that are currently being achieved. In light of the loss incurred in the current year, projections not being above previously announced break-even volume of 6,000 p/a, volatile market conditions associated with COVID-19 and uncertainty regarding the performance of the Group's operations an impairment provision against intangible assets was accounted for in the period.

Note 16. Trade and other payables

	Consolidated	
	31 Dec 2022 $'000	31 Dec 2021 $'000
Current liabilities		
Trade payables	1,463	1,674
Accrued expenses	679	1,206
Other payables	(38)	55
	2,104	2,935

Refer to note 23 for further information on financial instruments.

Note 17. Contract liabilities

	Consolidated	
	31 Dec 2022 $'000	31 Dec 2021 $'000
Current liabilities		
Contract liabilities	2	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	88	-
Payments received in advance	-	88
Transfer to revenue	(86)	-
Closing balance	2	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 $2,000 as at 31 December 2022 ($88,000 as at 31 December 2021) and is expected to be recognised as revenue in future periods as follows:

	Consolidated	
	31 Dec 2022 $'000	31 Dec 2021 $'000
Within 12 months	2	88

Note 18. Lease liabilities

	Consolidated	
	31 Dec 2022 $'000	31 Dec 2021 $'000
Current liabilities		
Lease liability	491	520
Non-current liabilities		
Lease liability	464	772
	955	1,292

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

During the period the lease in Chapel Street South Yarra was modified resulting in a reduction of leased space. Within the period the Group recognised $18,000 on a gain on lease modifications resulting from that modification.

Note 19. Provisions

	Consolidated	
	31 Dec 2022 $'000	31 Dec 2021 $'000
Non-current liabilities		
Lease provisions	188	-

Note 19. Provisions (continued)

Lease provisions
During the period, the Company's subsidiary in USA signed a development agreement with Advanced Casper, based in Wyoming USA. The agreement provided the option for the Group to establish a manufacturing facility in Casper Wyoming subject to a business case. As a consideration, the Group is obligated to pay up to $185,000 (in rental and outgoings) for 2 years. These amounts constitute all payments that the Group is obligated to pay for the Casper project should the business decide not to go ahead with project.

Movements in provisions
Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

Consolidated - 31 Dec 2022	Lease provisions $'000
Carrying amount at the start of the year	-
Additional provisions recognised	185
Foreign exchange	3
Carrying amount at the end of the year	188

Note 20. Issued capital

	Consolidated			
	31 Dec 2022 Shares	31 Dec 2021 Shares	31 Dec 2022 $'000	31 Dec 2021 $'000
Ordinary shares - fully paid	624,390,509	624,390,509	92,398	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.

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

Capital risk management
The Group's objectives when managing capital are 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 the 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.

Note 20. Issued capital (continued)

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 2021 Annual Report.

Note 21. Reserves

	Consolidated	
	31 Dec 2022 $'000	31 Dec 2021 $'000
Foreign currency reserve	1,128	1,092

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. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

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

Consolidated	Foreign currency $'000
Balance at 1 January 2021	985
Foreign currency translation	107
Balance at 31 December 2021	1,092
Foreign currency translation	36
Balance at 31 December 2022	1,128

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.

Note 23. Financial instruments (continued)

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

Consolidated	Assets 31 Dec 2022 $'000	Assets 31 Dec 2021 $'000	Liabilities 31 Dec 2022 $'000	Liabilities 31 Dec 2021 $'000
US dollars	907	378	142	105
Euros	-	-	12	-
New Zealand dollars	-	-	9	3
Canadian dollars	-	-	39	40
	907	378	202	148

The Group had net assets denominated in foreign currencies of $705,000 (assets of $907,000 less liabilities of $202,000) as at 31 December 2022 (31 December 2021: $230,000 (assets of $378,000 less liabilities of $148,000)). Based on this exposure, had the Australian dollars weakened by 10%/strengthened by 10% (31 December 2021: weakened by 10% / strengthened by 10%) against these foreign currencies with all other variables held constant, the Group's profit before tax for the year would have been $70,500 lower/$70,500 higher (31 December 2021: $23,000 lower/$23,000 higher) and equity would have been $52,875 lower/$52,875 higher (31 December 2021: $16,675 lower/$16,675 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 2022 was $137,000 (31 December 2021: loss of $129,000).

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.

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

Consolidated	31 Dec 2022 Weighted average interest rate %	31 Dec 2022 Balance $'000	31 Dec 2021 Weighted average interest rate %	31 Dec 2021 Balance $'000
Cash and cash equivalents	1.01%	14,456	0.05%	22,991
Other deposits	-	-	0.25%	130
Net exposure to cash flow interest rate risk		14,456		23,121

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

Consolidated - 31 Dec 2022	Basis points increase: Basis points change	Basis points increase: Effect on profit before tax	Basis points increase: Effect on equity	Basis points decrease: Basis points change	Basis points decrease: Effect on profit before tax	Basis points decrease: Effect on equity
Net exposure to cashflow interest rate risk	100	145	145	100	(145)	(145)

Note 23. Financial instruments (continued)

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

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.

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 2022	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	1,463	-	-	1,463
Other payables	(38)	-	-	(38)
Interest-bearing - variable				
Lease liability	491	464	-	955
Total non-derivatives	1,916	464	-	2,380

Note 23. Financial instruments (continued)

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

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.

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 2022 $	Consolidated 31 Dec 2021 $
Audit services		
Audit or review of the financial statements - SW	585,288	619,965
Audit or review of the financial statements - KPMG (relating to FY 2020)	-	289,957
	585,288	909,922
Other services		
Penetration Testing – SW	12,000	-
Taxation services -KPMG	-	20,597
Forensic accounting services -KPMG (investigation costs)	-	82,215
	12,000	102,812
	597,288	1,012,734
Audit services – network firm		
Audit or review of the financial statements -SW China	30,299	92,109

Note 25. Contingent liabilities

The Group is continuing to assess regulatory, compliance and operational matters connected with its Chinese operations which may result in penalties or the Group incurring additional costs. These are discussed in more detail below. As at the date of this financial report it is not possible to measure any contingent 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 become present obligations and can be reliably measured.

Note 25. Contingent liabilities (continued)

Tax and Environmental Matters

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 financial statements. 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 the contingent obligation with sufficient reliability as it remains 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.

The Group is continuing to assess certain regulatory compliance and operational matters associated with excess wastewater discharge connected with its Chinese manufacturing operations which may result in penalties or the Group incurring additional costs associated with rectification activities from regulatory bodies such as environmental authorities. As at the date of this financial report it is not possible to measure the contingent obligation with sufficient reliability as it remains subject to the outcome of future events not wholly within the control of the Group. The Group will recognise a liability for these amounts if and when the contingent obligations are confirmed and can be reliably measured.

Regulatory authorities

As indicated in previous announcements and disclosures, the Company self-reported the suspected fraud and mismanagement issues identified by current management and entered into an Investigation Cooperation Agreement ('ICA') with the Australian Federal Police ('AFP') in November 2021. This agreement requires the Company to engage cooperatively with the AFP.

The Company's engagement with the AFP is ongoing. In accordance with the ICA between AFP and the Company, the Company has committed to cooperating with the AFP which will be a factor for the Commonwealth Director of Public Prosecutions ('CDPP') when deciding whether or not to prosecute the Company or offer it a Deferred Prosecution Agreement should that option become available under Australian Law. Even if the CDPP ultimately decides to prosecute the Company, PET's cooperation will also be a mitigating factor for sentencing purposes in respect of penalties to be imposed on the Company.

The ICA deals primarily with offences in the nature of bribery and foreign corruption. There are other offences and proceedings which may be of relevance to the Company's past actions, some of which are within the purview of the AFP, while others are the domain of other regulatory agencies. The Company intends to keep progressing its management of these matters in the manner reflected in its agreements with the AFP.

The Company has also engaged in discussions with the Australian Securities and Investments Commission ('ASIC'). ASIC has made enquiries in relation to PET and its financial accounts that have been lodged with ASIC. The AFP has also referred certain allegations arising from the Company's engagement with the AFP under the ICA to ASIC for its consideration.

There is a risk that the Company will be exposed to judgments, fines and penalties arising from regulatory activity including the AFP's investigation and ASIC's inquiries that may have an adverse impact on its financial performance and financial position.

Claims by or against other persons involved in the Company's affairs

The 16 November 2021 and 25 May 2022 Announcements foreshadowed claims brought by PET against individuals including former directors Zhigang Zhang and Rob Schuitema. The 16 September 2022 Announcement stated that "After carefully considering (1) inquiries and investigations currently on foot by regulators, with compulsory powers to access documents and information, (2) the significant resources that would be expended by the Company and its key personnel in pursuing these claims, (3) the quantum of potential compensation that could be obtained by the Company, should the claims be successful, the Company has determined to await the outcome of inquiries by regulatory agencies before the filing of legal claims against the aforementioned parties."

The Company notes that in many circumstances, the initiation of a claim can accelerate or heighten the prospect of counterclaims, or of separate claims relating to similar matters. In this regard, and more generally in relation to the prospect of claims being made against the Company, the Company makes the following statements:

Note 25. Contingent liabilities (continued)

(1) The Company has not received any third-party claims, or letters of demand relating to these matters.
(2) As far as the Company is aware, no proceedings have been filed against it in relation to these matters.
(3) The Company's perspective on such claims, should they arise, is that they will be defended and prosecuted with the objective of liability being borne by the actual wrongdoers to the maximum extent possible, and not by the Company's shareholders.
(4) Having expended considerable time, effort and cost in investigating these fraud and mismanagement issues, the Company believes it is well placed to defend any claims that should arise with the objective stated above (namely that liability is borne by those wrongdoers).
(5) If any claims are made against the Company, or if these risks progress or develop, the Company will continue to keep shareholders appraised of such developments in a timely manner, and in accordance with the law and the ASX Listing Rules.

Further, following the fraud and mismanagement issues, the Company has been, and continues to be, exposed to a higher risk of being involved in proceedings, claims and disputes, whether initiated by the Company or persons previously involved with the Company's affairs. Any litigation, claim or dispute relating to the Company's past fraud and mismanagement issues may have an adverse impact on the financial performance and financial position of the Company.

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.

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.

Receivable from and payable to related parties
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.

Transactions with related parties related to fraud
As of the prior comparative period 31 December 2021, there are no more transactions related to alleged fraud. Please see note 25 'Contingent liabilities', paragraph headed "Claims by or against other persons involved in the Company's affairs" for further details on this matter.

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 2022 $	31 Dec 2021 $
Short-term employee benefits	1,662,384	2,259,480
Post-employment benefits	89,554	137,995
Long-term benefits	41,895	(5,814)
	1,793,833	2,391,661

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:

Name	Principal place of business / Country of incorporation	Ownership interest 31 Dec 2022 %	Ownership interest 31 Dec 2021 %
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%	100%
Shanghai Phoslock Environmental Technologies Limited	China	100%	-

Note 29. Cash flow information

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

	Consolidated 31 Dec 2022 $'000	Consolidated 31 Dec 2021 $'000
Loss after income tax expense for the year	(11,212)	(3,937)
Adjustments for:		
Depreciation and amortisation	70	142
(Reversals) of impairment of receivables	(94)	(2,441)
Impairment of assets	2,213	1,631
Other non-cash items	171	(1,105)
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	2,205	(267)
Decrease in inventories	185	654
(Increase) in prepayments	(158)	(428)
(Decrease) in trade and other payables	(497)	(724)
(Decrease)/increase in contract liabilities	(86)	88
(Decrease) in provision for income tax	-	(525)
(Decrease) in employee benefits	(55)	(14)
Increase in other provisions	188	-
Net cash used in operating activities	(7,070)	(6,926)

Note 29. Cash flow information (continued)

Changes in liabilities arising from financing activities

Consolidated	Lease liabilities $'000
Balance at 1 January 2021	3,836
Net cash used in financing activities	(480)
Lease modifications	(2,141)
Finance costs	77
Balance at 31 December 2021	1,292
Net cash used in financing activities	(687)
Lease modifications/ new lease	313
Finance costs	37
Balance at 31 December 2022	955

Note 30. Earnings per share

	Consolidated	
	31 Dec 2022 $'000	31 Dec 2021 $'000
Loss after income tax attributable to the owners of Phoslock Environmental Technologies Limited	(11,212)	(3,937)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	624,390,509	624,390,509
Weighted average number of ordinary shares used in calculating diluted earnings per share	624,390,509	624,390,509
	Cents	Cents
Basic earnings per share	(1.80)	(0.63)
Diluted earnings per share	(1.80)	(0.63)

Nil (2021: 3,000,000) 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. 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 2022 $'000	31 Dec 2021 Restated* $'000
Loss after income tax	(17,583)	(14,448)
Total comprehensive income	(17,583)	(14,448)

Statement of financial position

	Parent	
	31 Dec 2022 $'000	31 Dec 2021 Restated* $'000
Total current assets	1,978	3,152
Total assets	19,486	37,069
Total current liabilities	-	-
Total liabilities	-	-
Equity		
Issued capital	92,398	92,398
Accumulated losses	(72,912)	(55,329)
Total equity	19,486	37,069

* The prior period has been restated. In 2020, the Company recorded an impairment on its investment in Phoslock (Changxing) Water Solutions Ltd and Phoslock (Shanghai) Water Solutions Ltd resulting in an increased loss of $14,451,000, a decrease in total assets of $14,451,000 and a decrease in total equity of $14,451,000. This restatement does not affect the consolidated Group accounts.

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 2022 and 31 December 2021.

Contingent liabilities
Except as disclosed in note 25, the parent entity had no contingent liabilities as at 31 December 2022 and 31 December 2021.

Capital commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment as at 31 December 2022 and 31 December 2021.

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 32. Events after the reporting period

Since 31 December 2022, 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. These impacts include a redirection of funding towards priorities other than water remediation projects. 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 2022 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.

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 2022 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

28 February 2023
Melbourne

Take the lead

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PHOSLOCK ENVIRONMENTAL TECHNOLOGIES LIMITED

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Phoslock Environmental Technologies Limited (the Company) and its subsidiaries (the Group) which comprises the statement of financial position as at 31 December 2022, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the 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, 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 2022 and of its financial performance for the year then ended, and

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

Basis for Opinion

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 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.

Take the lead

1. Impairment of non-current assets

Why this is a key audit matter	How our audit addressed the key audit matter
Refer to Note 3 *Critical accounting judgements, estimates and assumptions - Impairment of non-financial assets other than goodwill and other indefinite life intangible assets*, Note 13 *Property, plant and equipment*, Note 14 R*ight-of-use assets*, and Note 15 *Intangibles* We identified the impairment of non-current assets as a key audit matter due to the estimation of the recoverable amount of each cash generating unit (CGU) involves complex and subjective management estimates. The recoverable amount of each CGU 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 audit matter.	Our audit procedures included: • Obtaining an understanding and assessing key controls over the preparation of the value-in-use models • Obtaining an understanding of the method, assumptions and data used by management in the value-in-use models • Testing the accuracy of the value-in-use models • Assessing whether the method, assumptions and data used by management were appropriate, and • Assessing the adequacy of the Group's impairment disclosures in the interim financial report.

2. Valuation of Inventory

Why this is a key audit matter	How our audit addressed the key audit matter
Refer to Note 3 *Critical accounting judgements, estimates and assumptions - Provision for impairment of inventories,* Note 11 *Inventories* The Group holds inventory amounting to $2,721,000 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. • Assessing the adequacy of the Group's disclosures in respect of Inventory.

Take the lead

Trade receivables – Expected Credit Losses (ECL)	
Why this is a key audit matter	**How our audit addressed the key audit matter**
Refer to Note 3 *Critical accounting judgements, estimates and assumptions*, **Note 10 *Trade and other receivables*** During 2022, the Company announced that the Court in China ordered payment of the outstanding receivable. In addition, due to the historical issues with regards to fraud being uncovered and the general economic environment, it is prudent to review management's estimate of ECL to ensure it appears reasonable. As estimating ECL provisions involves significant judgement we have determined this to be a key audit matter.	**Our audit procedures included:** • Developing an understanding of the design and implementation of controls associated with monitoring of outstanding receivables and impairment calculations • Reviewing subsequent events to ensure these events are appropriately reflected in the financial report • Assessing whether the methods, assumptions and data used by management in the allowance for the ECL account balance were appropriate, • Reviewing the adequacy of the financial report 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 2022, 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 has 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 12 to 17 of the directors' report for the year ended 31 December 2022.

In our opinion, the Remuneration Report of Phoslock Environmental Technologies Limited for the year ended 31 December 2022 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.

SW

SW Audit (formerly ShineWing Australia)
Chartered Accountants

Hayley Underwood
Partner

Melbourne, 28 February 2023

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	595	0.04	280,975
1,001 to 5,000	1,600	0.71	4,408,930
5,001 to 10,000	1,003	1.21	7,571,929
10,001 to 100,000	3,021	17.08	106,646,832
100,001 and over	868	80.96	505,481,843
	7,087	100.00	624,390,509
Holding less than a marketable parcel*	2,906	1.51	9,407,155

* Minimum $500 parcel at $0.0560 per unit.

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	% of total shares issued
LINK TRADERS (AUST) PTY LTD SUITE 405	67,840,714	10.87
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	16,977,990	2.72
MR EVAN PHILIP CLUCAS	14,948,984	2.39
CITICORP NOMINEES PTY LIMITED	12,601,336	2.02
ZZL PTY LTD (ZZL FAMILY A/C)	10,347,006	1.66
BNP PARIBAS NOMINEES PTY LTD	9,790,916	1.57
MR BILAL AHMAD	6,689,999	1.07
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	5,179,000	0.83
MR EDWIN PAUL CAYZER	5,137,483	0.82
SHARKY HOLDINGS PTY LTD (MORRIS FAMILY A/C)	4,800,000	0.77
MR DAVID NEVILLE COLBRAN	4,715,575	0.76
THIRTY SIXTH VILMAR PTY LTD	4,037,875	0.65
MR WAFA MUHAMMAD IQBAL	3,630,000	0.58
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	3,582,484	0.57
MR TIMOTHY STEWART CAMPBELL	3,000,000	0.48
MR MARIO SPIRANOVIC	2,906,827	0.47
MONSENA PTY LIMITED	2,882,176	0.46
	196,254,776	31.45

Unquoted equity securities

There are no unquoted equity securities.

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.

PHOSLOCK ENVIRONMENTAL TECHNOLOGIES LIMITED
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SOUTH YARRA VIC 3141