

Phoslock Environmental Technologies Limited  
and its Controlled Entities  
A.B.N. 88 099 555 290

Appendix 4E  
Preliminary Final Report  
For the Period Ended 31 December 2019

**Previous Reporting Period: 1 January 2019 to 30 June 2019**

PET has changed its financial year end from 30 June to 31 December.

The financial accounts for 31 December 19 are for a 12-month period.

The comparison period is for a 6-month period – 1 July 2018 to 31 December 2018.

(as required by the *Corporations Act 2001* and AASB 101 *Presentation of Financial Statements*)

<b>Results for announcement to the market:</b>	12 months ended	6 months ended	Change	
	31 December 19	31 December 18	\$	%
Revenues from ordinary activities	24,536,398	8,985,878	Up 15,552,520	173%
Net profit before tax (before options expenses)	3,681,767	1,638,784	Up 2,042,983	125%
Net profit/(loss) before tax (NPBT)	3,651,375	(143,040)	Up 3,794,415	2,653%
Net profit/(loss) after tax (NPAT)	2,988,642	(668,840)	Up 3,657,482	547%

**Brief explanation of any figures reported above necessary to enable the figures to be understood**

Detailed discussion on results contained in Directors' Report.

**Annual Meeting**

The annual meeting will be held as follows:

Place : Sydney  
Date : 13th May 2020  
Time : 02:00pm

Approximate date the annual report will be available: 8 April 2020

**Status of Audit**

Due to circumstances beyond KPMG's control, they have not been able to complete the audit of Company's China businesses at the time of this report.

The Company will lodge the final audited accounts as soon as sign-off from KPMG is received.

**NTA Backing**

	Current Period	Previous Period
Net tangible asset backing per ordinary shares (cents per share)	5.19	4.95



Mr Yanfai (Chris) HUI  
Company Secretary  
Dated the 28th day of February 2020



Phoslock Environmental Technologies Limited  
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CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 2019



## CORPORATE INFORMATION

### Directors

#### **Laurence Freedman AM**

Chairman

#### **Zhigang Zhang (张志刚)**

Deputy Chairman

#### **Robert Schuitema**

Managing Director

#### **Brenda Shanahan**

Non Executive Director

#### **Ningping Ma (马宁平)**

Non Executive Director

### Senior Management

#### **Robert Schuitema**

Managing Director & Chief Financial Officer

#### **Lachlan McKinnon**

Chief Executive Officer

#### **Andrew Winks**

General Manager - Global Operations

#### **Nigel Traill**

General Manager - International Sales

#### **Tingshan Liu (刘廷善)**

General Manager - Phoslock Beijing

#### **Zhaopeng (Jason) Hai (海兆鹏)**

Manager - Changxing Factory

#### **Yanfai (Chris) Hui**

Group Accountant & Company Secretary

### Office

#### **Sydney - Head Office**

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Sydney NSW 2000 Australia

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**Website :** [www.phoslock.com.au](http://www.phoslock.com.au)

### Auditor

#### **KPMG**

KPMG Tower Three

International Towers Sydney

300 Barangaroo Avenue

Sydney NSW 2000 Australia

### Share Register

#### **Computershare Investor Services Pty Limited**

Level 3, 60 Carrington Street

Sydney NSW 2000 Australia

**Phone :** +61 2 8234 5000

**Fax :** +61 2 8234 5050

**Email :** [web.queries@phoslock.com.au](mailto:web.queries@phoslock.com.au)

**ASX Listing Code:** PET

### Office

#### **Investor Relations**

**Email :** [ir@phoslock.com.au](mailto:ir@phoslock.com.au)

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Consolidated Financial Statements  
For the Period Ended 31 December 2019

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## **DIRECTORS' REPORT**

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

### **Directors**

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

Mr Laurence Freedman AM

Mr Zhigang Zhang

Mr Robert Schuitema

Mrs Brenda Shanahan

Mr Ningping Ma

### **Company Secretary**

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

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

## **Operating and Financial Review**

### **Principal Activities**

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

### **Change in Accounting Period**

PET changed its financial year end from 30 June to 31 December in the prior year. The purpose of the change is to synchronise the financial year ends of the Australian, Chinese, European & North American operations of the Group.

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**DIRECTORS' REPORT (CONTINUED)**

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

**Operating Results**

Sales revenue was \$24,536,398 for the 12 months (FY2018 (6 months): \$8,985,878). Net operating profit before option, finance costs and tax for the 12 months was \$3,752,889 (FY2018 (6 months): \$1,600,182).

The break-down of the Group operating performance was:

12 months ended 31 Dec 19	Total Revenue & Other Income	Operating Performance
International operations	3,891,230	493,388
China operations	21,221,601	5,502,232
	25,112,831	5,995,620
Corporate charges *		(2,242,731)
Operating profit		3,752,889
Exchange gain		2,114
Finance cost		(73,236)
Option charges **		(30,392)
Net profit before tax		3,651,375
Income tax expense		(662,733)
Net profit after tax		2,988,642

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

\*\* Non-cash option expense relating to performance options issued to newly appointed CEO.

Gross profit was \$13,411,174 for the twelve months (FY2018 (6 months): \$4,932,956). The gross profit margin was 54.7% for the twelve months (FY2018 (6 months): 54.9%). The gross profit margin was maintained above 50% for FY2019.

Operating expenses excluding option expenses, depreciation and amortisation, and finance costs for the twelve months to 31 December 2019 were \$9,789,563 (FY2018 (6 months): \$3,613,197). During FY2019 employee and technical consultant numbers increased from 60 to 70 employees. Annualizing the six months operating expenses, the year on year increase was 35%. The major increases were employee costs, occupancy and director/listing & professional fees. The Company is looking to increase employee numbers by a further 10-15 over the next 12 months with additional sales specialists in China, technical and research & development professionals in Changxing and technical sales specialists in the international operations.

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**DIRECTORS' REPORT (CONTINUED)**

Net operating profit before option, finance costs and tax for the twelve months to 31 December 2019 was \$3,752,889 (FY2018 (6 months): \$1,600,182).

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

The option cost for the twelve months to 31 December 2019 was \$30,392. This option cost was related to the performance option issued to the newly appointed CEO in November 2019. The total option expense for the six months to 31 December 2018 was \$1,781,824. The option expense is non-cash and does not affect the underlying operating performance of the Company.

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

This resulted in an income tax expense of \$662,733 for the twelve months (FY2018 (6 months): \$525,800). The tax expense calculation is detailed in Note 4.

The consolidated result for the consolidated entity for the twelve months after providing for income tax amounted to a profit of \$2,988,642 (FY2018 (6 months): loss of \$668,840). This included an option expense of \$30,392 (FY2018 (6 months): \$1,781,824).

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

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**DIRECTORS' REPORT (CONTINUED)**

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

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

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

During the twelve months to 31 December 2019 the Company raised a total of \$3,486,193 (including capital raising costs of \$31,307) in new equity via the conversion of employee options into shares. This, along with profit for FY2019 of \$2,988,642, has resulted in a significant improvement in the balance sheet. The Company's net assets improved to \$30,224,980 as at 31 December 2019. The Company's gearing ratio as at 31 December 2019 (including trade creditors) was (39.0%) (FY2018: (12.6%)).

Cash receipts from customers for FY2019 was \$27,781,009 (FY2018 (6 months): \$3,951,869. Net Cash from Operations for FY2019 was \$7,564,488 (FY2018 (6 months): (\$7,568,680). Proceeds from the exercise of share options for FY2019 were \$3,517,500. Cash used to purchase property, plant & equipment and intangible assets (patents & trademarks) totaled a cash outflow of \$618,206. The combined effect of above results in a net increase of cash & cash equivalents held by \$10,084,584 taking cash & cash equivalents held as at 31 December 2019 of \$14,959,045.

**Dividends Paid or Recommended**

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

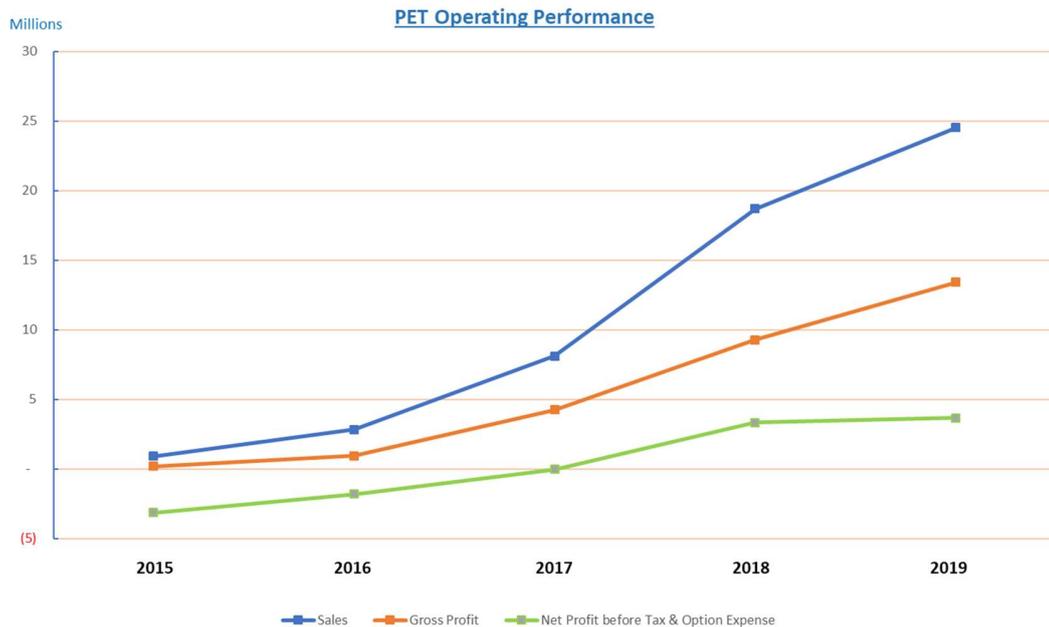
On 23 September 2019 the Company made a Bonus Issue of Shares on the ratio of one new share for every 200 PET shares held. This resulted in the issuance of 2,800,113 new fully paid shares to shareholders.

**DIRECTORS' REPORT (CONTINUED)**

**PET Financial Performance review for last five years.**

The Company changed its financial year to 31 December to synchronise the Australian, Chinese, European & North American operations of the Group under one common balance date. The first full financial year is 1 January 2019 to 31 December 2019. The comparable period, as required by the *Corporations Act 2001* and AASB 101 *Presentation of Financial Statements*, is the last audited accounts, which covered the six months period 1 July 2018 to 31 December 2018.

To assist shareholders better understand the financial performance of PET, the Company has taken the financial accounts of PET since 2015 and presented financial information for calendar years 2015 to 2019. The key financial numbers – Sales; Gross Profit; Net Profit before Tax and Option Expense are shown in the graph below.



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**DIRECTORS' REPORT (CONTINUED)**

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

**Consolidated Statement of Profit or Loss and Other Comprehensive Income**  
**For the Period Ended 31 December 2019**

	12 months ended 31 Dec 19 \$	12 months ended 31 Dec 18 \$
Sales revenue	24,536,398	18,688,156
Cost of sales	(11,125,224)	(9,404,236)
<b>Gross profit</b>	<b>13,411,174</b>	<b>9,283,920</b>
Other income	576,433	692,679
Distribution expenses	(158,710)	49,304
Marketing expenses	(642,967)	(431,064)
Occupancy expenses	(129,073)	(336,957)
Director, listing & professional fees	(2,916,138)	(2,244,069)
Administrative expenses	(6,387,830)	(3,678,007)
<b>Operating profit</b>	<b>3,752,889</b>	<b>3,335,806</b>
Finance costs	(73,236)	1,784
Foreign exchange gains	2,114	12,758
Options expenses	(30,392)	(3,484,130)
<b>Profit/(loss) before income tax</b>	<b>3,651,375</b>	<b>(133,782)</b>
Income tax expense	(662,733)	(954,900)
<b>Profit/(loss) for the period</b>	<b>2,988,642</b>	<b>(1,088,682)</b>

**Review of Operations**

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

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

**DIRECTORS' REPORT (CONTINUED)**



*Application of Phoslock® to Xinyuan Lake, Yunnan province.*

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

Beijing Ecosystem Environmental Science and Technology Co., Ltd (BEST, which is 100% owned by PET) has formed a team of experienced engineers and project implementation experts that can undertake end-to-end design, engineering, project site works, application and maintenance of water remediation in rivers, canals, wetlands and lakes across China using PET's traditional material (Phoslock®) and a range of other remediation products (zeolites, bacteria and other products). During FY2019 this team continued work on both the Beijing Canal and Beijing Wetland projects. This team has a large project at Shilongba Reservoir, Yunnan Province scheduled to commence in the first half of FY2020.

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

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

**DIRECTORS' REPORT (CONTINUED)**

Approximately 35% of international sales came via the Company's Brazilian licensee, HidroScience. The largest project was further work on Lake Pampulha, a large inner-city lake. The primary Pampulha contract was completed by 2018. In order to maintain Pampulha's water quality the consortium secured an ongoing maintenance contract to apply Phoslock® into it. HidroScience is also working on a number of reservoirs and other lakes in northern and central Brazil. In February 2020 HidroScience commenced work on a major drinking water reservoir in Rio De Janeiro.

Approximately, 35% of international sales came from SePRO Corporation, the company's United States licensee. 400 tons of Phoslock® was ordered and paid for in Q4 2019 for use in the Florida wetlands. The largest of these projects will commence in February 2020. Positive results are expected to lead to significantly larger projects in both Florida and other regions of the U.S. In addition to Florida, the company is working with our licensee on projects in other key regions of the U.S., including Utah, the Great Lakes Region and the North East.



*Phoslock® being applied to wetlands in Florida, United States*

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

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

## **DIRECTORS' REPORT (CONTINUED)**

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

The Company has had a wholly owned and operated 4,000 square metre manufacturing facility in Changxing, China since mid-2017. Changxing is located 150km from Shanghai and its export ports and is serviced by excellent transport including the high-speed train. The Changxing Economic Development Board has provided a range of rebates and tax incentives covering the first five years of operations. A number of the incentives are linked to sales revenue from the manufacturing facility. The manufacturing facility had an initial production capacity of 15,000 tons per annum of Phoslock® products. During 2019, upgrades were made to the manufacturing facilities and production capacity was increased to 20,000 tons per annum. The manufacturing facility operates under strict EPA requirements. The facility received three ISO accreditations during the year from leading certifying organization, TÜV Rheinland from Germany. The facility is also audited by US organization WQA, in order to maintain our NSF60 North American Drinking Water Approval.

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

**DIRECTORS' REPORT (CONTINUED)**



*New Changxing Manufacturing Facility – 12,600 square metres ground floor space.*

**Financial Position**

The net assets of the consolidated entity were \$30,224,980 as of 31 December 2019, an improvement of \$6,228,239 as of 31 December 2018. The increase in net assets is as a result of profit for the period of \$2,988,642 and the conversion of employee performance options into shares totaling \$3,486,193. Improved business activities led to an increase in cash & cash equivalents by \$10,080,950. As at 31 December 2019 the Company had no external loans. Its liabilities were made up of trade and other payables, lease liabilities, employee annual leave and long service leave provisions and tax payable.

**Capital Management**

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

## **DIRECTORS' REPORT (CONTINUED)**

### **Future Developments, Prospects and Business Strategies**

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

- (i) Diversifying the Company's business base through its design, engineering and project implementation team which will not only be a new source of revenue but increase sales of Phoslock® and other materials in these projects;
- (ii) Rapid expansion of the design, engineering & construction and materials business throughout China;
- (iii) Large one-off projects in China, North & Southern America, and Europe;
- (iv) Lower production and distribution costs of Phoslock® and other materials through the Changxing manufacturing operation;
- (v) Evaluation and development new water treatment products and technologies through in-house development, licensing arrangements or acquisition.

### **Significant Changes in State of Affairs**

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

### **Environmental Issues**

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

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

**DIRECTORS' REPORT (CONTINUED)**

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

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

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**DIRECTORS' REPORT (CONTINUED)**

**Information on Directors**

<b>Mr Laurence Freedman AM</b>	<b>Chairman (Non-Executive)</b>
Qualifications	CPA, MAusIMM
Experience	Board member since October 2010. Mr Freedman has a long history and involvement with listed and private companies around the world. He founded the EquitiLink Investment Management Group, building it into a global investment management corporation, which he sold in 2000. He has held Chairman and Director roles in many international companies in industries as diverse as investment management, media, resources, health and environment. He currently manages private investments in shares, property and fixed interest investments. Mr Freedman is Chairman of the Freedman Foundation, a philanthropic enterprise, involved in scientific and medical research, the arts and underprivileged youth programs in Australia.
Interest in Shares & Options	69,183,912 Ordinary Shares in Phoslock Environmental Technologies Limited, predominantly via his related company, Link Traders (Aust) Pty Ltd.
Special Responsibilities	Mr Freedman is a Member of the Remuneration and Nomination Committees.

<b>Mr Zhigang Zhang</b>	<b>Deputy Chairman (Non-Executive)</b>
Experience	Board member since June 2017. Mr Zhang is a senior executive of a subsidiary of Beijing Enterprises Water Group (HK Listed 371), the largest water group in China. Mr Zhang has worked in the water remediation and water treatment industry in China and overseas for over 30 years. Mr Zhang is a Director of ASX listed Enviosuite Limited.
Interest in Shares & Options	25,000,000 Ordinary Shares in Phoslock Environmental Technologies Ltd held directly.
Special Responsibilities	Mr Zhang is a Member of the Remuneration and Nomination Committees.

<b>Mr Robert Schuitema</b>	<b>Managing Director (Executive)</b>
Qualifications	Chartered Accountant (CA), BCA, INFINZ
Experience	Board member since April 2005. Former Managing Director of investment bank Chase Manhattan and later JP Morgan Chase responsible for the bank's mining, metals and project finance business in Australia and the Asia Pacific region. Mr Schuitema was previously a Director of ASX listed companies KalNorth Gold Mines Ltd, Electo Optical Systems Ltd and Inca Copper & Gold Ltd.
Interest in Shares & Options	9,547,503 Ordinary Shares in Phoslock Environmental Technologies Limited via his related company, Sail Ahead Pty Ltd and related party family member.
Special Responsibilities	Mr Schuitema is a Member of the Nomination, Audit and Compliance Committee.

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**DIRECTORS' REPORT (CONTINUED)**

<b>Mrs Brenda Shanahan</b>	<b>Director (Non-Executive)</b>
Qualifications	B. Comm, Fellow of AICD
Experience	Board member since September 2017. Mrs Shanahan has a research background in finance in Australian and overseas economies and share markets. Previously she held executive positions included Managing Director of W M Mercer Investment Consulting for Australia and Asia and a member of their international board. Mrs Shanahan is a former Director of EquitiLink Limited and former Non-Executive Director of ASX listed company, Challenger Financial Services, and Challenger Limited. She is also a Director of Clinuvet Pharmaceuticals Ltd., DMP Asset Management Ltd, St Vincent's Medical Research Institute in Melbourne Foundation and the Chair of the Aitkenhead Centre of Medical Discovery. Recently, Mrs Shanahan was bestowed with an honorary Doctorate from Swinburne University of Technology and was also appointed to the Australian Advisory Board on Technology and Healthcare Competitiveness (a partnership with United States Council on Competitiveness).
Interest in Shares & Options	1,306,500 Ordinary Shares in Phoslock Environmental Technologies Limited held directly and indirectly.
Special Responsibilities	Mrs Shanahan is Chairperson of the Remuneration and Audit and Compliance Committees, and a Member of the Nomination Committee.

<b>Mr Ningping Ma</b>	<b>Director (Non-Executive)</b>
Experience	Board member since December 2018. Mr Ma is a senior executive of a subsidiary of Beijing Enterprises Water Group (HK Listed 371), the largest water group in China. Mr Ma has more than 25 years' experience in the water remediation and water treatment industry.
Interest in Shares & Options	2,245,990 Ordinary Shares in Phoslock Environmental Technologies Ltd held directly.
Special Responsibilities	Mr Ma is a Member of the Remuneration and Nomination Committees.

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**DIRECTORS' REPORT (CONTINUED)**

**Meetings of Directors**

During the year ended 31 December 2019, 12 meetings of directors (including committees of directors) were held. Attendances by each director during the year were:

	Directors' meeting		Committee Meetings			
	No. of eligible to attend	No. attended	Audit & Compliance		Remuneration	
	No. of eligible to attend	No. attended	No. of eligible to attend	No. attended	No. of eligible to attend	No. attended
Mr Laurence Freedman	12	12	-	-	1	1
Mr Zhigang Zhang	12	12	-	-	1	1
Mr Robert Schuitema	12	12	2	2	-	-
Mrs Brenda Shanahan	12	12	2	2	1	1
Mr Ningping Ma	12	12	-	-	1	-

**Indemnifying Officers or Auditor**

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

During the twelve months period, the Company has paid premiums totalling \$42,789 (FY2018 (6 months): \$17,909) to insure all directors and executives against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director or officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

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

**Proceedings on Behalf of Company**

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

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



Mr Robert Schuitema  
Managing Director  
Dated at Sydney, 28th February 2020



Mrs Brenda Shanahan  
Non-Executive Director - Chairman of Audit Committee  
Dated at Sydney, 28th February 2020

Phoslock Environmental Technologies Limited  
and its Controlled Entities  
A.B.N. 88 099 555 290

**Consolidated Statement of Profit or Loss and Other Comprehensive Income**  
**For the Period Ended 31 December 2019**

	NOTE	12 months ended 31 Dec 19 \$	6 months ended 31 Dec 18 \$
Sales revenue	2	24,536,398	8,985,878
Cost of sales		<u>(11,125,224)</u>	<u>(4,052,922)</u>
<b>Gross profit</b>		<b>13,411,174</b>	<b>4,932,956</b>
Other income	2	576,433	336,812
Distribution expenses		(158,710)	(77,173)
Marketing expenses		(642,967)	(218,271)
Occupancy expenses	3	(129,073)	(172,383)
Director, listing & professional fees		(2,916,138)	(1,036,589)
Administrative expenses		<u>(6,387,830)</u>	<u>(2,165,170)</u>
<b>Operating profit</b>		<b>3,752,889</b>	<b>1,600,182</b>
Finance costs	3	(73,236)	-
Foreign exchange gains		2,114	38,602
Options expenses	25	<u>(30,392)</u>	<u>(1,781,824)</u>
<b>Profit/(loss) before income tax</b>		<b>3,651,375</b>	<b>(143,040)</b>
Income tax expense	4	<u>(662,733)</u>	<u>(525,800)</u>
<b>Profit/(loss) for the period</b>		<b>2,988,642</b>	<b>(668,840)</b>
<b>Other comprehensive income</b>			
Exchange difference arising on translation of foreign controlled entities		<u>(276,988)</u>	236,285
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD</b>		<b><u>2,711,654</u></b>	<b><u>(432,555)</u></b>
<b>Profit/(loss) for the period attributable to:</b>			
- Owners of parent entity		2,988,642	(668,840)
- Non-controlling interest		-	-
<b>Total profit/(loss) for the period</b>		<b>2,988,642</b>	<b>(668,840)</b>
<b>Total comprehensive income/(loss) for the period attributable to:</b>			
- Owners of parent entity		2,711,654	(432,555)
- Non-controlling interest		-	-
<b>Total comprehensive income/(loss) for the period</b>		<b><u>2,711,654</u></b>	<b><u>(432,555)</u></b>
<b>Earnings per share</b>			
Basic earnings per share (cents per share)	8	0.59	(0.14)
Diluted earnings per share (cents per share)	8	0.59	(0.13)

The accompanying notes form part of these consolidated financial statements

Phoslock Environmental Technologies Limited  
and its Controlled Entities  
A.B.N. 88 099 555 290

**Consolidated Statement of Financial Position**

**As at 31 December 2019**

	NOTE	As at 31 Dec 19 \$	As at 31 Dec 18 \$
<b>CURRENT ASSETS</b>			
Cash & cash equivalents	9	14,959,045	4,878,095
Trade & other receivables	10	17,148,853	17,762,206
Inventories	11	2,342,221	2,408,321
Financial assets	9(a)	26,163	-
Other assets	16	946,447	448,403
<b>TOTAL CURRENT ASSETS</b>		<b>35,422,729</b>	<b>25,497,025</b>
<b>NON-CURRENT ASSETS</b>			
Financial assets	9(a)	-	25,575
Property, plant & equipment	13	1,760,720	1,465,992
Right of use asset	14	698,730	-
Intangible assets	15	196,064	136,410
Deferred tax assets	17	290,060	358,314
<b>TOTAL NON-CURRENT ASSETS</b>		<b>2,945,574</b>	<b>1,986,291</b>
<b>TOTAL ASSETS</b>		<b>38,368,303</b>	<b>27,483,316</b>
<b>CURRENT LIABILITIES</b>			
Trade & other payables	18	6,476,976	2,114,567
Lease liabilities	19	352,412	-
Other liabilities	5	-	71,815
Short term provisions	20	548,652	388,160
Tax payable		333,953	871,192
<b>TOTAL CURRENT LIABILITIES</b>		<b>7,711,993</b>	<b>3,445,734</b>
<b>NON-CURRENT LIABILITIES</b>			
Lease liabilities	19	324,954	-
Other liabilities	5	106,376	40,841
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>431,330</b>	<b>40,841</b>
<b>TOTAL LIABILITIES</b>		<b>8,143,323</b>	<b>3,486,575</b>
<b>NET ASSETS</b>		<b>30,224,980</b>	<b>23,996,741</b>
<b>EQUITY</b>			
Issued capital	21	63,387,085	59,900,892
Reserves		561,333	6,006,311
Accumulated loss		(33,723,438)	(41,910,462)
<b>TOTAL EQUITY</b>		<b>30,224,980</b>	<b>23,996,741</b>

The accompanying notes form part of these consolidated financial statements

Phoslock Environmental Technologies Limited  
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**Consolidated Statement of Changes in Equity**

**For the Period Ended 31 December 2019**

	Issued capital \$	Option reserves \$	Foreign currency translation reserves \$	Accumulated losses \$	Total attributable to owners of the Company \$	Non- controlling interest \$	Total equity \$
<b>31 December 18</b>							
<b>Balance at 1 July 18</b>	51,298,783	3,416,558	571,644	(41,137,177)	14,149,808	(92,914)	14,056,894
<b>Total comprehensive (loss)/income</b>							
Loss for the period	-	-	-	(668,840)	(668,840)	-	(668,840)
Other comprehensive income	-	-	236,285	-	236,285	-	236,285
<b>Total comprehensive (loss)/income for the period</b>	-	-	236,285	(668,840)	(432,555)	-	(432,555)
<b>Transaction with owners in the capacity as owners</b>							
Shares issued during the period	5,311,529	-	-	-	5,311,529	-	5,311,529
Options exercised during the period	3,290,580	-	-	-	3,290,580	-	3,290,580
Options expenses during the period	-	1,781,824	-	-	1,781,824	-	1,781,824
Changes in ownership interests	-	-	-	(104,445)	(104,445)	92,914	(11,531)
<b>Total transactions with owners in their capacity as owners</b>	8,602,109	1,781,824	-	(104,445)	10,279,488	92,914	10,372,402
<b>Balance at 31 December 18</b>	<b>59,900,892</b>	<b>5,198,382</b>	<b>807,929</b>	<b>(41,910,462)</b>	<b>23,996,741</b>	<b>-</b>	<b>23,996,741</b>
<b>31 December 2019</b>							
<b>Balance at 1 January 19</b>	59,900,892	5,198,382	807,929	(41,910,462)	23,996,741	-	23,996,741
<b>Total comprehensive income</b>							
Gain for the year	-	-	-	2,988,642	2,988,642	-	2,988,642
Other comprehensive income	-	-	(276,988)	-	(276,988)	-	(276,988)
<b>Total comprehensive income for the period</b>	-	-	(276,988)	2,988,642	2,711,654	-	2,711,654
<b>Transaction with owners in the capacity as owners</b>							
Shares issued during the year	-	-	-	-	-	-	-
Options exercised during the year	3,486,193	-	-	-	3,486,193	-	3,486,193
Options expenses during the year	-	30,392	-	-	30,392	-	30,392
Transfer option reserves to accumulated losses	-	(5,198,382)	-	5,198,382	-	-	-
<b>Total transactions with owners in their capacity as owners</b>	3,486,193	(5,167,990)	-	5,198,382	3,516,585	-	3,516,585
<b>Balance at 31 December 19</b>	<b>63,387,085</b>	<b>30,392</b>	<b>530,941</b>	<b>(33,723,438)</b>	<b>30,224,980</b>	<b>-</b>	<b>30,224,980</b>

The accompanying notes form part of these consolidated financial statements

Phoslock Environmental Technologies Limited  
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**Consolidated Statement of Cash Flows**  
**For the Period Ended 31 December 2019**

	NOTE	12 months ended 31 Dec 19 \$	6 months ended 31 Dec 18 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		27,781,009	3,951,869
Receipts from research & development grant		347,757	484,360
Payments to suppliers & employees		(19,145,867)	(11,553,890)
Interest received		96,171	8,130
Finance costs	3	(73,236)	-
Tax paid		(1,441,346)	(459,149)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>		<b>7,564,488</b>	<b>(7,568,680)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant & equipment	13	(554,290)	(112,655)
Purchase of intangible assets	15	(63,916)	(59,871)
Acquisition of non-controlling interest		-	(11,531)
<b>NET OF CASH USED IN INVESTING ACTIVITIES</b>		<b>(618,206)</b>	<b>(184,057)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		-	5,536,001
Proceeds from exercise of share options		3,517,500	3,307,500
Payment of transaction cost – equity raising		(31,307)	(241,392)
Repayment of borrowings		-	(310,022)
Payment of lease liabilities		(347,891)	
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>		<b>3,138,302</b>	<b>8,292,087</b>
<b>Net increase/(decrease) in cash &amp; cash equivalents held</b>		<b>10,084,584</b>	<b>539,350</b>
Cash & cash equivalents at the beginning of the period		4,878,095	4,324,053
Translation difference		(3,634)	14,692
<b>CASH &amp; CASH EQUIVALENTS AT THE END OF THE PERIOD</b>		<b>14,959,045</b>	<b>4,878,095</b>

The accompanying notes form part of these consolidated financial statements

Phoslock Environmental Technologies Limited  
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**Notes to the Consolidated Financial Statements  
For the Period Ended 31 December 2019**

**Corporate Information**

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

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

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

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

**NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Preparation**

**Statement of Compliance**

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs), Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board.

The financial statements were authorised for issue by the Board of Directors on 28<sup>th</sup> February 2020.

**Basis of Measurement**

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

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

**Functional and Presentation Currency**

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

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

**Change in Accounting Period**

PET changed its financial year end from 30 June to 31 December in the prior year. During the transition, the last financial period was a six-month period from 1 July 2018 to 31 December 2018. The current financial accounts for 31 December 2019 are for a twelve-month period. Accordingly, the comparative figures for the consolidated statement of profit or loss and other comprehensive income, consolidated statements of changes in equity, consolidated cash flow statements and the related notes would not be comparable.

**Changes in Significant Accounting Policies**

**(a) Adoption of New Standard and Amendments to Standards**

The Group initially applied AASB 16 *Leases* from 1 January 2019.

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

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

On transition to AASB 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied AASB 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* were not reassessed for whether there is a

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

lease under AASB 16. Therefore, the definition of a lease under AASB 16 was applied only to contracts entered into or changed on or after 1 January 2019.

**i. As a lessee**

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

**ii. As a lessor**

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

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

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

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

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

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

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

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

The Group conducted preliminary assessment of the impact of the above standards, amendments to standards and interpretations, certain of which may not be relevant to the Group's operations and may give rise to changes in accounting policies, changes in disclosures and remeasurement of certain items in the consolidated financial statements.

**(b) Principles of Consolidation**

The consolidated financial statements incorporate all of the assets, liabilities and results of the Company and its subsidiaries (collectively referred to as the "Group") for the period ended 31 December 2019. A subsidiary is an entity, directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

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

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

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

Profit or loss and each component of other comprehensive income are attributed to the shareholders of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Appropriate adjustments have been made to a controlled entity's financial position, performance and cash flows where the accounting policies used by that entity were different from those adopted by the consolidated entity.

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

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

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

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

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

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

**(c) Foreign Currency Transactions and Balances**

*Functional and presentation currency*

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

*Transaction and balances*

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

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

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

*Group companies*

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

- (i) assets and liabilities for each consolidated statement of financial position presented are translated at the exchange rate ruling at the date of that consolidated statement of financial position;
- (ii) income and expenses for each consolidated income statement are translated at the average exchange rate during the period covered by the consolidated income statement;
- (iii) all resulting exchange differences are recognised as a separate component of equity; and

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

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

**(d) Revenue and Other Income**

**AASB 15: Revenue from Contracts with Customers**

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

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

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

Under AASB 15 revenue is recognised when contract modifications are enforceable and to the extent that it is highly probable that a significant reversal of revenue will not occur. In making the assessment, the Group considers a number of factors including the nature of the claim, returns and refund policies and the historical transactions to determine whether the “enforceable” and “highly probable” threshold has been met.

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

Type of product/service	Nature and timing of satisfaction of performance, obligations, including significant payment terms
Sales of Phoslock	Customers obtain control of Phoslock products when the goods are despatched from the Group's warehouse or loaded on the shipping vessels depending on the shipping terms.  Invoices are generated and revenue is recognised at that point in time.  Invoices are usually payable within 30 days.
Services fee	Customers obtain benefits from the service provided by Phoslock in the design, engineering and project implementation. Revenue is recognised over time when services are rendered.
Interest revenue	Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets is the rate inherent in the instrument.
Research & Development Grants	Research and development grants are recognised at fair value where there is reasonable assurance that the grant will be received, and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs it is compensating.

**(e) Income Tax**

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

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

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

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

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

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

*Investment allowances and similar tax incentives*

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

**(f) Impairment of Assets**

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

**(g) Leases**

Policy applicable before 1 January 2019

**i. As a lessee**

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

Assets held under other leases were classified as operating leases and were not recognized in the Group's statement of financial position. Payments made under operating leases were recognized in

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

profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

**ii. As a lessor**

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

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

*Policy applicable from 1 January 2019*

**i. As a lessee**

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

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

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

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

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

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

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

*Short-term leases and leases of low-value assets*

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

Impact on financial statements

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

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

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

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

**Notes to the Consolidated Financial Statements  
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**(h) Inventories**

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

**(i) Property, Plant and Equipment**

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

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

*Depreciation*

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

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

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

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

**Notes to the Consolidated Financial Statements  
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**(j) Intangibles**

*Phoslock® license patents and trademarks*

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

*Research and development*

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

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

**(k) Financial Instruments**

**AASB 9: Financial Instruments**

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

*Classification and subsequent measurement*

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

AASB 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

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

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

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

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

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

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

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

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

*Financial assets – Assessment whether contractual cash flows are solely payments for principal and interest*

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

**Notes to the Consolidated Financial Statements  
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- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

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

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

AASB 9 retains the previous requirements for the classification of financial liabilities. Generally, all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss. However, AASB 9 requires that the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI, while the remaining amount of change in the fair value is presented in profit or loss.

*Impairment*

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

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

**Notes to the Consolidated Financial Statements  
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Under AASB 9, loss allowances will be measured on either of the following issues:

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

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

*Offsetting*

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

**(I) Impairment of Financial Assets**

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

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

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

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

**(m) Derecognition**

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

**(n) Provisions**

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

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

**(o) Employee Benefits**

*Short-term obligations*

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

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

*Other long-term obligations*

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

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

*Equity-settled compensation*

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

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

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

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

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

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

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

**(q) Contributed Equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

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

**(r) Earnings Per Share**

*Basic earnings per share*

Basic earnings per share is calculated by dividing:

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

**Notes to the Consolidated Financial Statements  
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*Diluted earnings per share*

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

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

**(s) Parent Entity Financial Information**

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

*Investments in subsidiaries and associates*

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

*Tax consolidation*

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

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

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

**Notes to the Consolidated Financial Statements  
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*Financial guarantees*

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

*Share-based payments*

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

**(t) Segment Reporting**

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

**(u) Critical Accounting Estimates and Judgements**

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

*Income taxes*

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

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

**Notes to the Consolidated Financial Statements  
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*Provision for impairment of receivables*

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

*Impairment*

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

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**Notes to the Consolidated Financial Statements  
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**NOTE 2 REVENUE**

	12 months ended 31 Dec 19 \$	6 months ended 31 Dec 18 \$
<b>Sales revenue</b>		
- Sale of goods	24,460,316	8,980,593
- Provision of service	76,082	5,285
	<u>24,536,398</u>	<u>8,985,878</u>
<b>Other revenue</b>		
- Interest received	96,171	8,130
- Research & development grants	408,061	307,878
- Other income	72,201	20,804
	<u>576,433</u>	<u>336,812</u>
<b>Total sales and other revenue</b>	<b><u>25,112,831</u></b>	<b><u>9,322,690</u></b>

**NOTE 3 EXPENSES FOR THE PERIOD**

	12 months ended 31 Dec 19 \$	6 months ended 31 Dec 18 \$
<b>Expenses</b>		
- Interest on bank notes	26,361	-
- Interest on leased liabilities	46,875	-
Total finance costs	<u>73,236</u>	<u>-</u>
Rental expense on leased premise	129,073	172,383
Employee benefit expense (excluding options expenses)	3,569,875	1,427,614
Australia superannuation contributions	175,674	80,403
Depreciation and amortisation	445,155	56,389

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

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

**NOTE 4 INCOME TAX EXPENSE**

	12 months ended 31 Dec 19 \$	6 months ended 31 Dec 18 \$
<b>(a) Income tax expense</b>		
- Current – Australia*	-	-
- Current – China	662,195	495,242
- Current – elsewhere	538	-
- Deferred tax	-	30,558
	<b>662,733</b>	<b>525,800</b>

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

**(b) The prima facie tax payable on the profit from ordinary activities is reconciled to the income tax provided in the account as follows:**

	12 months ended 31 Dec 19 \$	6 months ended 31 Dec 18 \$
Profit/(Loss) before income tax	3,651,375	(143,040)
Income tax using domestic tax rate 27.5% (FY2018: 27.5%)	1,004,128	(39,336)
Tax effect of		
- Income not subject to tax	(68,133)	(85,074)
- Expense not deductible for tax	105,386	153,102
- Share options expenses	8,358	490,001
- Tax loss not recognised as deferred tax assets	446,379	71,660
- Foreign subsidiaries	(833,385)	(64,553)
	<b>662,733</b>	<b>525,800</b>
Weighted average effective tax rate	9.1%	11.7%

	12 months ended 31 Dec 19 \$	6 months ended 31 Dec 18 \$
<b>(c) Unrecognized deferred tax assets</b>		
Accumulated losses	31,268,295	29,946,765
Potential tax losses	8,598,781	8,235,360
Temporary differences – accruals and provisions	648,656	450,160
Potential tax benefit	178,380	123,794
<b>Total deferred tax assets not brought to account</b>	<b>8,777,162</b>	<b>8,359,154</b>

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**Notes to the Consolidated Financial Statements  
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**NOTE 5 OTHER LIABILITIES**

	As at 31 Dec 19 \$	As at 31 Dec 18 \$
<b>Current</b>		
Unearned revenue	-	71,815
<b>Non-current</b>		
Investment incentive received in advance from Chinese government	106,376	40,841
<b>Total other liabilities</b>	<b>106,376</b>	<b>112,656</b>

**NOTE 6 KEY MANAGEMENT PERSONNEL COMPENSATION**

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

	12 months ended 31 Dec 19 \$	6 months ended 31 Dec 18 \$
Short term employee benefits	1,639,897	716,457
Post-employment benefits (contributions to superannuation, including salary sacrifice)	159,617	89,917
Long term benefits	78,472	18,393
Equity compensation benefits	30,392	1,507,174
<b>Total compensation</b>	<b>1,908,378</b>	<b>2,331,941</b>

**NOTE 7 AUDITORS REMUNERATION**

	12 months ended 31 Dec 19 \$	6 months ended 31 Dec 18 \$
Audit and audit-related services (KPMG)		
- Audit and review of financial report – KPMG Australia	124,250	109,988
- Overseas audit – KPMG China	105,429	80,921
<b>Total audit and audit-related services</b>	<b>229,679</b>	<b>190,909</b>
Other services		
- KPMG Australia	30,000	-
- KPMG China	15,932	-
<b>Total other services</b>	<b>45,932</b>	<b>-</b>
<b>Total auditor's remuneration</b>	<b>275,611</b>	<b>190,909</b>

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**Notes to the Consolidated Financial Statements  
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**NOTE 8 EARNINGS PER SHARE**

	12 months ended 31 Dec 19 \$	6 months ended 31 Dec 18 \$
<b>(a) Reconciliation of earnings to profit and loss</b>		
- Profit/(Loss)	2,988,642	(668,840)
- (Profit) attributable to non-controlling equity interest	-	-
- Earnings used to calculate basic EPS	2,988,642	(668,840)
<b>Earnings used in the calculation of dilutive EPS</b>	<b>2,988,642</b>	<b>(668,840)</b>
<b>(b) Weighted average number of ordinary shares outstanding during the year used in calculating</b>	<b>No.</b>	<b>No.</b>
- Weighted average number of shares	508,902,353	488,144,161
- Weighted average number of options outstanding	-	24,978,421
<b>Weighted average number of ordinary shares outstanding during the year used in the calculation of dilutive EPS</b>	<b>508,902,353</b>	<b>513,122,582</b>

**NOTE 9 CASH AND CASH EQUIVALENTS**

	As at 31 Dec 19 \$	As at 31 Dec 18 \$
Cash at bank and on hand	14,959,045	4,878,095
	<b>14,959,045</b>	<b>4,878,095</b>

**(a) Financial assets**

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

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**Notes to the Consolidated Financial Statements  
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**NOTE 10 TRADE AND OTHER RECEIVABLES**

	As at 31 Dec 19 \$	As at 31 Dec 18 \$
<b>Current</b>		
Trade receivables	16,701,096	17,562,206
Less provisions for impairment	-	-
	16,701,096	17,562,206
 Grant income receivables	 447,757	 200,000
	<b>17,148,853</b>	<b>17,762,206</b>

**(a) Provision for impairment of receivables**

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

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

Under AASB 9, loss allowances will be measured on either of the following bases:

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

The Group has applied the simplified approach to recognise lifetime expected credit losses for trade receivables, and finance lease receivables as permitted by AASB 9.

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

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

	Gross Amount \$	Past Due and Impaired \$	Past Due but Not Impaired (Days Overdue)				Within Initial Trade Terms \$
			< 30 \$	31-60 \$	61-90 \$	> 90 \$	
<b>As at 31 December 2019</b>							
- Trade and other receivables	16,701,096	-	-	12,088	1,096,808	989,954	14,602,246
- Other receivables	447,757	-	-	-	-	-	447,757
<b>Total</b>	<b>17,148,853</b>	<b>-</b>	<b>-</b>	<b>12,088</b>	<b>1,096,808</b>	<b>989,954</b>	<b>15,050,003</b>
<b>As at 31 December 2018</b>							
- Trade and other receivables	17,562,206	-	7,006,403	-	-	133,541	10,422,262
- Other receivables	200,000	-	-	-	-	-	200,000
<b>Total</b>	<b>17,762,206</b>	<b>-</b>	<b>7,006,403</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,622,262</b>

**NOTE 11 INVENTORIES**

	As at 31 Dec 19 \$	As at 31 Dec 18 \$
Current		
- Raw material (at cost)	1,083,501	582,766
- Finished goods (at cost)	1,258,720	1,825,555
	<b>2,342,221</b>	<b>2,408,321</b>

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**NOTE 12 PARENT ENTITY INFORMATION**

	As at 31 Dec 19 \$	As at 31 Dec 18 \$
<b>(a) The parent entity of the consolidated entity is Phoslock Environmental Technologies Limited</b>		
Current assets	2,798,617	20,160
Non-current assets	25,892,656	27,382,273
<b>Total assets</b>	<b>28,691,273</b>	<b>27,402,433</b>
Term liabilities	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>
<b>Net assets</b>	<b>28,691,273</b>	<b>27,402,433</b>
Issued capital	63,387,085	59,900,892
Share based payment and options reserve	30,392	5,198,382
Accumulated losses	(34,726,204)	(37,696,841)
<b>Total equity</b>	<b>28,691,273</b>	<b>27,402,433</b>
	12 months ended 31 Dec 19	6 months ended 31 Dec 18
Loss after income tax	(2,227,745)	(2,547,238)
Other comprehensive income	-	-
<b>Total comprehensive loss</b>	<b>(2,227,745)</b>	<b>(2,547,238)</b>

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

<b>(b) Controlled entities of the parent entity</b>	<b>Country of Incorporation</b>	<b>Percentage owned (%)</b>	
		<b>31 Dec 19</b>	<b>31 Dec 18</b>
Phoslock Pty Ltd	Australia	100	100
Phoslock Technologies Pty Ltd	Australia	100	100
Phoslock International Pty Ltd	Australia	100	100
Phoslock Water Solutions (UK) Limited	United Kingdom	100	100
Phoslock Europe GmbH	Switzerland	100	100
Phoslock Belgium*	Belgium	100	-
Phoslock (Shanghai) Water Solutions Ltd	China	100	100
Phoslock (Changxing) Water Solutions Ltd	China	100	100
Phoslock (Beijing) Ecological Engineering Technology Co., Ltd	China	100	100
Beijing Ecosystem Environmental Science and Technology Co., Ltd	China	100	100

\* Phoslock Belgium was incorporated on 3 September 2019.

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**NOTE 13 PROPERTY, PLANT AND EQUIPMENT**

	As at 31 Dec 19 \$	As at 31 Dec 18 \$
Property, plant and equipment, at cost	2,593,647	2,040,380
Less accumulated depreciation	(832,927)	(574,388)
	<b>1,760,720</b>	<b>1,465,992</b>

	Motor Vehicles \$	Leasehold Improvement \$	Plant and Equipment \$	Total \$
<b>Balance at 1 January 2019</b>	<b>3,001</b>	<b>151,537</b>	<b>1,311,454</b>	<b>1,465,992</b>
Additions	-	-	554,290	554,290
Depreciation expense*	(3,001)	(62,273)	(194,288)	(259,562)
<b>Balance at 31 December 2019</b>	<b>-</b>	<b>89,264</b>	<b>1,671,456</b>	<b>1,760,720</b>
<b>Balance at 1 July 2018</b>	<b>6,001</b>	<b>181,091</b>	<b>1,286,931</b>	<b>1,474,023</b>
Additions	-	1,286	111,369	112,655
Depreciation	(3,000)	(30,840)	(86,846)	(120,686)
<b>Balance at 31 December 2018</b>	<b>3,001</b>	<b>151,537</b>	<b>1,311,454</b>	<b>1,465,992</b>

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

**NOTE 14 RIGHT OF USE ASSET**

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

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

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**NOTE 15 INTANGIBLE ASSETS**

	As at 31 Dec 19 \$	As at 31 Dec 18 \$
<b>Patent</b>		
Cost	201,764	137,848
Accumulated amortisation and impairment	(5,700)	(1,438)
<b>Net carrying amount</b>	<b>196,064</b>	<b>136,410</b>
<b>Total intangibles assets</b>	<b>196,064</b>	<b>136,410</b>

**NOTE 16 OTHER ASSETS**

	As at 31 Dec 19 \$	As at 31 Dec 18 \$
<b>Current</b>		
- Prepayments	645,308	260,039
- VAT deposit guarantee	17,349	17,562
- Income tax refund	222,890	151,092
- Other current assets	60,900	18,900
	<b>946,447</b>	<b>448,403</b>

**NOTE 17 DEFERRED TAX ASSETS**

	As at 31 Dec 19 \$	As at 31 Dec 18 \$
<b>The balance comprises temporary differences attributable to:</b>		
Accrued expenses	290,060	358,314
	<b>290,060</b>	<b>358,314</b>

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**NOTE 18 TRADE AND OTHER PAYABLES**

	As at 31 Dec 19 \$	As at 31 Dec 18 \$
<b>Current</b>		
- Trade payables	6,376,976	1,974,141
- Sundry payables and accrued expenses	100,000	140,426
	<b>6,476,976</b>	<b>2,114,567</b>

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

**NOTE 19 LEASE LIABILITIES**

	As at 31 Dec 19 \$	As at 31 Dec 18 \$
<b>Current</b>		
Equipment	3,536	-
Leased properties	348,876	-
	<b>352,412</b>	-
<b>Non-current</b>		
Equipment	6,972	-
Leased properties	317,982	-
	<b>324,954</b>	-
<b>Total lease liabilities</b>	<b>677,366</b>	-

\$46,875 of interest on lease liabilities is recognised in the profit or loss during the period.

\$351,659 cash outflow for leases is recognised in the statement of cash flows during the period.

**Maturity analysis – contractual undiscounted cash flow**

	As at 31 Dec 19 \$
Less than one year	386,991
One to five years	375,407
More than five years	-
<b>Total undiscounted lease liabilities</b>	<b>762,398</b>

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**NOTE 20 PROVISIONS**

	12 months ended 31 Dec 19 \$	6 months ended 31 Dec 18 \$
<b>Current</b>		
<b>Employee entitlements</b>		
Opening balance	388,160	363,752
Additions provisions	253,580	73,424
Amounts used	(93,088)	(49,016)
<b>Balance</b>	<b>548,652</b>	<b>388,160</b>
<b>Non-current</b>		
<b>Employee entitlements</b>		
Opening balance	-	4,210
Additions provisions	-	-
Amounts used	-	(4,210)
<b>Balance</b>	-	-
<b>Analysis of total provision</b>		
Current	548,652	388,160
Non-current	-	-
	<b>548,652</b>	<b>388,160</b>

**Current employee entitlements**

During the twelve months ended 31 December 2019, the Company undertook annual leave buy-backs from employees. Each employee with more than 200 hours of accrued leave were entitled to sell-back 80 hours of annual leave at each buy back. The Board approved the buy-backs to reduce the amount of accrued employee entitlements.

**Non-current employee entitlements**

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

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**NOTE 21 ISSUED CAPITAL**

	As at 31 Dec 19 \$	As at 31 Dec 18 \$
564,991,694 fully paid ordinary shares (31 December 2018: 528,691,581)	63,387,085	59,900,892
	<b>63,387,085</b>	<b>59,900,892</b>

**(a) Ordinary shares**

	12 months ended 31 Dec 19		6 months ended 31 Dec 18	
	No.	\$	No.	\$
<b>At the beginning of the period</b>	<b>528,691,581</b>	<b>59,900,892</b>	<b>481,813,801</b>	<b>51,298,783</b>
Shares issued during the period				
- 12 July 2018, issue of shares under a Placement	-	-	15,377,780	5,536,001
- 26 October 2018, conversion of options	-	-	10,000,000	1,050,000
- 8 November 2018, conversion of options	-	-	20,000,000	2,100,000
- 27 November 2018, conversion of options	-	-	1,500,000	157,500
- 18 January 2019, conversion of options	12,200,000	1,281,000	-	-
- 18 February 2019, conversion of options	1,150,000	120,750	-	-
- 25 May 2019, conversion of options	5,200,000	546,000	-	-
- 11 June 2019, conversion of options	4,100,000	430,500	-	-
- 8 July 2019, conversion of options	650,000	68,250	-	-
- 12 August 2019, conversion of options	250,000	26,250	-	-
- 19 August 2019, conversion of options	500,000	52,500	-	-
- 12 September 2019, conversion of options	7,000,000	735,000	-	-
- 23 September 2019, issuance of bonus shares*	2,800,113	-	-	-
- 11 November 2019, conversion of options	1,900,000	199,500	-	-
- 11 December 2019, conversion of options	550,000	57,750	-	-
Transaction costs arising from Share Placement	-	-	-	(224,472)
Transaction costs arising from options conversion	-	(31,307)	-	(16,920)
<b>Balances at the end of the period</b>	<b>564,991,694</b>	<b>63,387,085</b>	<b>528,691,581</b>	<b>59,900,892</b>

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

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholder meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

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**(b) Capital management**

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

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

There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Groups' financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels and share issues.

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

	Note	As at 31 Dec 19 \$	As at 31 Dec 18 \$
Total borrowings (including trade creditors)	18	6,476,976	2,186,382
Less cash and cash equivalents	9	<u>(14,959,045)</u>	<u>(4,878,095)</u>
Net debt		(8,482,069)	(2,691,713)
Total equity		30,224,980	23,996,741
Total assets		38,368,303	27,483,316
Gearing ratio		(39.0%)	(12.6%)

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**NOTE 22 RESERVES**

**(a) Foreign currency translation reserve**

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

**(b) Option reserve**

The option reserve records items recognised as expenses on valuation of employee share options and options issued to third parties. 35,000,000 options were issued to employees and consultants during FY2017 plus 30,000,000 options were issued during FY2017 to China Environmental Corporation (Australia) Pty Ltd as part of the terms of a Share Placement. Total option expense of \$5,198,382 had been recorded at 31 December 2018 and this amount was also credited to the option reserve. During this financial year, this amount has been transferred from option reserve to retained earnings.

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

**NOTE 23 SEGMENT REPORTING**

**Segment Information**

**Identification of reportable segments**

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

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

**Types of products and services by segment**

The sale of Phoslock® granules and application services and lake restoration consulting services is the main business of the Group. These products and services are provided on a geographical basis with offices

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and representation in each of the Company's four key geographical areas - Australia/NZ, Europe/UK, US/Canada/Brazil and China.

**Basis of accounting for purposes of reporting by operating segments**

*Accounting policies adopted*

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

*Inter-segment transactions*

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

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

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

*Segment assets*

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

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

*Segment liabilities*

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

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*Unallocated items*

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

- deferred tax assets and liabilities;
- corporate and finance cost
- tax expenses

**(a) Segment performance**

Twelve months ended 31 December 19	Aust / NZ /		US / Canada /		Sub-Total	Eliminations	Total
	Others	Europe/UK	Brazil	China			
<b>Revenue</b>							
External sales	144,390	736,660	2,665,692	20,989,656	24,536,398	-	24,536,398
Inter-segment sales	1,673,623	51,709	-	1,095,961	2,821,293	(2,821,293)	-
Other revenue	358,990	2,754	-	231,945	593,689	(17,256)	576,433
<b>Total segment revenue</b>	<b>2,177,003</b>	<b>791,123</b>	<b>2,665,692</b>	<b>22,317,562</b>	<b>27,951,380</b>	<b>(2,838,549)</b>	<b>25,112,831</b>
<b>Segment profit/(loss) before tax</b>	<b>232,611</b>	<b>14,410</b>	<b>284,828</b>	<b>5,417,162</b>	<b>5,949,011</b>	<b>46,609</b>	<b>5,995,620</b>
Unallocated items:							
- corporate charges							(2,242,731)
- finance costs							(73,236)
- exchange gain							2,114
- option costs							(30,392)
- tax expenses							(662,733)
Profit from continuing operations							<u>2,988,642</u>

Six months ended 31 December 18	Aust / NZ /		US / Canada		Sub-Total	Eliminations	Total
	Others	Europe/UK	Brazil	China			
<b>Revenue</b>							
External sales	193,798	56,840	917,477	7,817,763	8,985,878	-	8,985,878
Inter-segment sales	465,592	-	-	453,536	919,128	(919,128)	-
Other revenue	320,251	-	-	24,064	344,315	(7,503)	336,812
<b>Total segment revenue</b>	<b>979,641</b>	<b>56,840</b>	<b>917,477</b>	<b>8,295,363</b>	<b>10,249,321</b>	<b>(926,631)</b>	<b>9,322,690</b>
<b>Segment profit/(loss) before tax</b>	<b>139,989</b>	<b>(37,508)</b>	<b>131,105</b>	<b>2,125,429</b>	<b>2,359,015</b>	<b>14,082</b>	<b>2,373,097</b>
Unallocated items:							
- corporate charges							(772,915)
- exchange gain							38,602
- option costs							(1,781,824)
- tax expenses							(525,800)
(Loss) from continuing operations							<u>(668,840)</u>

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**(b) Segment assets**

	Aust / NZ / Others	Europe/UK	US / Canada / Brazil	China	Sub-Total	Eliminations	Total
<b>31 December 19</b>							
Segment assets	24,201,313	599,895	-	30,674,737	55,475,945	(17,397,701)	38,078,244
Unallocated assets							-
<b>Total group assets</b>							<u>38,078,244</u>
<b>31 December 18</b>							
Segment assets	21,702,290	607,451	-	21,518,200	43,827,941	(16,344,625)	27,483,316
Unallocated assets							-
<b>Total group assets</b>							<u>27,483,316</u>

**(c) Segment liabilities**

	Aust / NZ / Others	Europe/UK	US / Canada / Brazil	China	Sub-Total	Eliminations	Total
<b>31 December 19</b>							
Segment liabilities	1,372,185	1,283,680	-	8,002,531	10,658,396	(2,515,068)	8,143,328
Unallocated liabilities							-
<b>Total group liabilities</b>							<u>8,143,328</u>
<b>31 December 18</b>							
Segment liabilities	600,277	1,288,617	-	4,430,967	6,319,861	(2,833,286)	3,486,575
Unallocated liabilities							-
<b>Total group liabilities</b>							<u>3,486,575</u>

**(d) Major customers**

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

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**NOTE 24 CASH FLOW INFORMATION**

**Reconciliation of net cash from operating activities to operating profit after income tax**

	12 months ended 31 Dec 19 \$	6 months ended 31 Dec 18 \$
<b>Net profit/(loss) after income tax</b>	<b>2,988,642</b>	<b>(668,840)</b>
<b>Non cash flow to profit</b>		
Depreciation and amortization	580,467	121,648
Shares and option expense	30,392	1,781,824
Translation reserve	(263,470)	221,593
<b>Changes in assets/liabilities</b>		
Decrease/(increase) in trade and other receivables	613,353	(6,270,589)
(Increase)/decrease in prepayments and other assets	(498,632)	108,844
Decrease/(increase) in inventories	66,100	(635,424)
Decrease/(increase) in deferred tax assets	68,254	344,106
Increase/(decrease) in trade payables and accruals	4,362,409	(2,389,442)
(Decrease)/increase in financial & other liabilities	(6,280)	74,856
Increase/(decrease) in provisions	160,492	20,198
(Decrease)/increase in tax payables	(537,239)	(277,454)
<b>Cash flow used in operating activities</b>	<b>7,564,488</b>	<b>(7,568,680)</b>

**NOTE 25 SHARE-BASED PAYMENTS**

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

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

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**Phoslock Environmental Technologies Limited Share Options Plan**

**(a) Share option plan – 65m@\\$0.105**

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

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

**(b) Share option plan – 10m@\\$1.350**

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

Grant date	No. of instruments	Vesting conditions	Contractual life of options
<b>Options granted to PET Chinese employees</b>			
On 25 September 2019	10,000,000	<ul style="list-style-type: none"> <li>- PET China record sales (before Chinese VAT) achieved Rmb70 million for the period from 1 September 2019 to 31 December 2019</li> <li>- Remain employed beyond the vesting date</li> </ul>	1 year
<b>Total share options</b>	<b>10,000,000</b>		

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

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

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

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

**(d) Share option plan – 25m@\$1.000**

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

Grant date	No. of instruments	Vesting conditions	Contractual life of options
<b>Options issued but not granted to PET Chinese employees</b>			
	3,000,000	For the period from 1 January 2020 to 31 December 2020, PET China record sales (before Chinese VAT): - Not less than \$40 million; - More than \$50 million but less than or equal to \$60 million; - More than \$60 million but less than or equal to \$70 million; - More than \$70 million but less than or equal to \$80 million; - More than \$80 million. Remain employed beyond the vesting date	1 year
	+ 4,000,000		
	+ 3,000,000		
	+ 3,000,000		
	+ 7,000,000		
	+ 2,000,000		
<b>Total share options</b>	<b>20,000,000</b>		

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

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

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

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

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

**(e) Measurement of fair values**

The fair value of the share options has been measured using the Black-Scholes formula. Service and non-market performance conditions attached to the arrangements were not taken into account in measuring fair value.

The inputs used in the measurement of the fair values at grant date of the equity-settled share-based payment plans were as follows:

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Share option plan – 65m@\$0.105

	12 Months ended		
	31 Dec 19	30 Jun 18	30 Jun 17
<b>Grant date on 16 June 2017</b>			
Fair value at grant date	-	-	\$0.1088
Share price at grant date	-	-	\$0.1750
Exercise price	-	-	\$0.1050
Expected volatility	-	-	81.81%
Expected life	-	-	811 days
Risk-free interest rate	-	-	1.72%
	12 Months ended		
	31 Dec 19	30 Jun 18	30 Jun 17
<b>Grant date on 17 July 2017</b>			
Fair value at grant date	-	\$0.1299	-
Share price at grant date	-	\$0.2000	-
Exercise price	-	\$0.1050	-
Expected volatility	-	81.89%	-
Expected life	-	713 days	-
Risk-free interest rate	-	1.86%	-
<b>Grant date on 1 September 2017</b>			
Fair value at grant date	-	\$0.1076	-
Share price at grant date	-	\$0.1800	-
Exercise price	-	\$0.1050	-
Expected volatility	-	76.31%	-
Expected life	-	677 days	-
Risk-free interest rate	-	1.87%	-
<b>Grant date on 10 October 2017</b>			
Fair value at grant date	-	\$0.1136	-
Share price at grant date	-	\$0.1900	-
Exercise price	-	\$0.1050	-
Expected volatility	-	73.69%	-
Expected life	-	628 days	-
Risk-free interest rate	-	1.96%	-
<b>Grant date on 6 November 2017</b>			
Fair value at grant date	-	\$0.1248	-
Share price at grant date	-	\$0.2050	-
Exercise price	-	\$0.1050	-
Expected volatility	-	72.00%	-
Expected life	-	601 days	-
Risk-free interest rate	-	1.78%	-

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Share option plan – 1.5m@\$1.250 & 1.5m@\$1.350

	12 Months ended		
	31 Dec 19	30 Jun 18	30 Jun 17
<b>Grant date on 27 November 2019</b>		-	-
Fair value at grant date	\$0.2542	-	-
Share price at grant date	\$0.9400	-	-
Exercise price	\$1.2500	-	-
Expected volatility	50%-60%	-	-
Expected life	765 Days	-	-
Risk-free interest rate	0.65%	-	-
<b>Grant date on 27 November 2019</b>		-	-
Fair value at grant date	\$0.2794	-	-
Share price at grant date	\$0.9400	-	-
Exercise price	\$1.3500	-	-
Expected volatility	50%-60%	-	-
Expected life	1,130 Days	-	-
Risk-free interest rate	0.65%	-	-

**(f) Reconciliation of outstanding share options**

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

	12 months ended 31 Dec 19		6 months ended 31 Dec 18	
	Number of options No.	Weighted Average Exercise Price \$	Number of options No.	Weighted Average Exercise Price \$
Opening balance	33,500,000	0.105	65,000,000	0.105
Granted	13,000,000	1.338	-	-
Issued but not granted	25,000,000	1.000	-	-
Vesting conditions not met / lapsed	(10,000,000)	1.350	-	-
Exercised	(33,500,000)	0.105	(31,500,000)	0.105
Vested options not exercised	-	-	(33,500,000)	0.105
<b>Outstanding at 31 December</b>	<b>28,000,000</b>	<b>1.032</b>	<b>-</b>	<b>-</b>
Exercisable at period end	-	-	33,500,000	0.105

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

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**NOTE 26 RELATED PARTIES**

**(a) Key management personnel compensation**

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

	12 months ended 31 Dec 19 \$	6 months ended 31 Dec 18 \$
<b>Transaction with related parties:</b>		
<b>(b) Relatives of specified executives</b>		
Services provided on a normal commercial basis by parties related to specified executives:		
Margaret Schuitema – part time employment <sup>(1)</sup>	128,615	57,115
Yolanda Winks – part time employment <sup>(2)</sup>	45,946	20,688
Martin Schuitema – part time employment <sup>(1)</sup>	12,223	8,426
Venus Ho – part time employment <sup>(3)</sup>	33,367	14,300
 <b>(c) Transactions with related parties</b>		
Link Traders (Aust) Pty Ltd – rental costs for Sydney office <sup>(4)</sup>	118,604	58,102
Serenety Holdings Pty Ltd – investor relations <sup>(5)</sup>	140,991	126,107
Contribution to self-managed superannuation funds managed by related parties <sup>(1), (5) &amp; (6)</sup>	69,357	39,388

- (1) related party of Robert Schuitema
- (2) related party of Andrew Winks
- (3) related party of Chris Hui
- (4) Laurence Freedman is a director of this Company
- (5) related party of Laurence Freedman
- (6) related party of Brenda Shanahan

**NOTE 27 EVENTS SUBSEQUENT TO BALANCE DATE**

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

The Company received permission from the Changxing Government to re-open the factory on 15 February 2020. Production re-commenced on 17 February 2020, some two weeks later than originally scheduled. The Company transported four containers of Phoslock (84 tons) to Shanghai on 19 February 2020 for shipment to Brazil.

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

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**NOTE 28 FINANCIAL RISK MANAGEMENT**

**(a) Financial risk management policies**

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

(i) Financial risk exposure management

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

*Interest rate risk*

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

*Foreign currency risk*

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

*Liquidity risk*

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

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*Credit risk*

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

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

**(b) Financial instruments**

(i) Financial instrument composition and maturity analysis

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

	Weighted Average Effective Interest rate	Floating Interest rate	Fixed Interest Rate Maturing			Non- interest bearing	Total
			Within 1 year	1 to 5 years	Over 5 Years		
<b>31-Dec-19</b>	%	\$	\$	\$	\$	\$	\$
<b>Financial Assets</b>							
Cash and cash equivalents	0.4%	14,545,689	413,356	-	-	-	14,959,045
Long term deposits	1.4%	26,163	-	-	-	-	26,163
Trade and other receivables	0%	-	-	-	-	17,148,853	17,148,853
<b>Total Financial Assets</b>		<b>14,571,852</b>	<b>413,356</b>	<b>-</b>	<b>-</b>	<b>17,148,853</b>	<b>32,134,061</b>

	Weighted Average Effective Interest rate	Floating Interest rate	Fixed Interest Rate Maturing			Non- interest bearing	Total
			Within 1 year	1 to 5 years	Over 5 Years		
<b>31-Dec-18</b>	%	\$	\$	\$	\$	\$	\$
<b>Financial Assets</b>							
Cash and cash equivalents	0.7%	4,878,095	-	-	-	-	4,878,095
Long term deposits	2.3%	25,575	-	-	-	-	25,575
Trade and other receivables	0%	-	-	-	-	17,762,206	17,762,206
<b>Total Financial Assets</b>		<b>4,903,670</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,762,206</b>	<b>22,665,876</b>

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	Weighted Average Effective Interest rate	Floating Interest rate	Fixed Interest Rate Maturing			Non- interest bearing	Total
			Within 1 year	1 to 5 years	Over 5 Years		
<b>31-Dec-19</b>	%	\$	\$	\$	\$	\$	\$
<b>Financial Liabilities</b>							
Trade and other payables	0%	-	-	-	-	6,476,976	6,476,976
<b>Total Financial Liabilities</b>		-	-	-	-	6,476,976	6,476,976

	Weighted Average Effective Interest rate	Floating Interest rate	Fixed Interest Rate Maturing			Non- interest bearing	Total
			Within 1 year	1 to 5 years	Over 5 Years		
<b>31-Dec-18</b>	%	\$	\$	\$	\$	\$	\$
<b>Financial Liabilities</b>							
Trade and other payables	0%	-	-	-	-	2,114,567	2,114,567
<b>Total Financial Liabilities</b>		-	-	-	-	2,114,567	2,114,567

**Financial liabilities are expected to be paid as follows:**

	As at 31 Dec 19 \$	As at 31 Dec 18 \$
- Less than 6 months	6,476,976	2,114,567
- 6 months to 1 year	-	-
- 1 – 5 years	-	-
	<u>6,476,976</u>	<u>2,114,567</u>

(ii) Net Fair Values

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

(iii) Sensitivity analysis

*Interest rate risk and foreign currency risk*

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

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**Interest Rate Sensitivity Analysis**

As at 31 December 2019, the effect on profit and equity as a result of changes in the interest rate on cash and cash equivalents, with all other variables remaining constant would be as follows:

	As at 31 Dec 19 \$	As at 31 Dec 19 \$
<b>Change in profit</b>		
- Increase in interest rate by 1%	149,590	48,781
- Decrease in interest rate by 1%	(149,590)	(48,781)
<b>Change in equity</b>		
- Increase in interest rate by 1%	149,590	48,781
- Decrease in interest rate by 1%	(149,590)	(48,781)

**Foreign Currency Risk and Sensitivity Analysis**

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

	As at 31 Dec 19 \$	As at 31 Dec 18 \$
<b>Change in profit</b>		
- Increase in foreign exchange rate by 10%	10,078,813	3,878,858
- Decrease in foreign exchange rate by 10%	(10,078,813)	(3,878,858)
<b>Change in equity</b>		
- Increase in foreign exchange rate by 10%	10,078,813	3,878,858
- Decrease in foreign exchange rate by 10%	(10,078,813)	(3,878,858)

As at 31 December 2019, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the US Dollar on USD sales (11% of total sales); (10% in FY2018 (6 months)) with all other variables remaining constant is as follows:

	As at 31 Dec 19 \$	As at 31 Dec 18 \$
<b>Change in profit</b>		
- Increase in foreign exchange rate by 10%	186,340	68,618
- Decrease in foreign exchange rate by 10%	(186,340)	(68,618)
<b>Change in equity</b>		
- Increase in foreign exchange rate by 10%	186,340	68,618
- Decrease in foreign exchange rate by 10%	(186,340)	(68,618)

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

	As at 31 Dec 19 \$	As at 31 Dec 18 \$
<b>Change in profit</b>		
- Increase in foreign exchange rate by 10%	35,043	3,574
- Decrease in foreign exchange rate by 10%	(35,043)	(3,574)
<b>Change in equity</b>		
- Increase in foreign exchange rate by 10%	35,043	3,574
- Decrease in foreign exchange rate by 10%	(35,043)	(3,574)

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

**NOTE 29 CONTINGENT LIABILITIES**

The group has no contingent liabilities. (FY2018 (6 months): Nil)