Phoslock Environmental Technologies Limited
Appendix 4E
Preliminary final report

1. Company details

Name of entity:	Phoslock Environmental Technologies Limited
ABN:	88 099 555 290
Reporting period:	For the year ended 31 December 2020
Previous period:	For the year ended 31 December 2019

2. Results for announcement to the market

The comparative financial statements for the prior period has been restated as described in note 4.

				$'000
Revenues from ordinary activities	down	65.2%	to	6,878
Loss from ordinary activities after tax attributable to the owners of Phoslock Environmental Technologies Limited	up	2276.2%	to	(25,734)
Loss for the year attributable to the owners of Phoslock Environmental Technologies Limited	up	2276.2%	to	(25,734)

Dividends
There were no dividends paid, recommended or declared during the current financial period.

Comments
The loss for the Group after providing for income tax amounted to $25,734,000 (31 December 2019 restated: $1,083,000).

	Consolidated	
	31 Dec 2020 $'000	31 Dec 2019 Restated $'000
Revenue	6,878	19,757
Net Operating Profit/(Loss) after Tax ('NPAT')	(25,734)	(1,083)
Add: income tax (benefit)/expense	(113)	1,241
Add: Finance costs	204	73
Add: Impairment of receivables	10,935	-
Add: Impairment of assets	7,381	189
Add: Share-based expense (reversal)/expense	(30)	30
Add: Foreign exchange losses/(gains)	67	(2)
Less: Interest revenue	(106)	(96)
Underlying Earnings Before Interest and Taxes ('Underlying EBIT') *	(7,396)	352

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

Coronavirus (COVID-19) impacted the business through the reporting period via restrictions imposed in key markets to slow the spread of the virus. Restrictions in Beijing caused challenges in business development as key personnel could not visit strategically important clients and sites. China sales were delayed through the period as government officials reprioritised short term emergency resources away from projects such as lake restoration towards immediate health resources. In Europe, several projects were impacted by COVID-19 related delays. In those instances, authorities with which PET has contracted remediation works have cited more pressing expenditure priorities associated with supporting local communities during the pandemic. While these projects have been delayed, none have been cancelled.

In response to the accounting irregularities identified in the Group's Chinese operations (as presented in the 30 June 2020 interim report), the directors and management have taken a number of significant measures to stabilise and rebase the business. Whilst the Group expects to utilise some of its available cash reserves to support its operating activities in the short term, and settle amounts due to external advisors arising from the Board Investigation, the Group's current cashflow forecasts indicate that the cash held by the Group will be sufficient to support its operating activities and pay creditors as and when they fall due for no less than 12 months from the date of the Directors Report.

3. Net tangible assets

	Reporting period Cents	Previous period Restated Cents
Net tangible assets per ordinary security	4.66	4.40

The net tangible assets calculation does not include rights-of-use assets of $164,000 (31 December 2019: $699,000) but includes the lease liabilities of $3,836,000 (31 December 2019: $678,000).

4. Control gained over entities

Name of entities	Incorporation date
Phoslock Canada Inc.	13 February 2020
Zhejiang Phoslock Environmental Technologies Ltd	20 February 2020

5. Loss of control over entities

Not applicable.

6. Dividends

Current period
There were no dividends paid, recommended or declared during the current financial period.

Previous period
There were no dividends paid, recommended or declared during the previous financial period.

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

10. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements have been audited and a disclaimer opinion has been issued.

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11. Attachments

Details of attachments (if any):

The Annual Report of Phoslock Environmental Technologies Limited for the year ended 31 December 2020 is attached.

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12. Signed

As authorised by the Board of Directors

Signed ____________________________ Date: 31 March 2021

Lachlan McKinnon
Managing Director

Phoslock Environmental Technologies Limited

ABN 88 099 555 290

Annual Report - 31 December 2020

Directors	Laurence Freedman AM Brenda Shanahan AO Lachlan McKinnon Barry Sechos
Company secretary	Matthew Parker
Notice of annual general meeting	The details of the annual general meeting of Phoslock Environmental Technologies Limited are: 25 May 2021 Notification of the time and venue for the meeting will be released separately
Registered office	Level 16 1 Collins St Melbourne, VIC 3000
Principal place of business	Level 16 1 Collins St Melbourne, VIC 3000
Share register	Computershare Investor Services Pty Limited Level 3, 60 Carrington Street Sydney, NSW 2000 Australia Phone: +61 2 8234 5000
Auditor	KPMG KPMG Tower Three International Towers Sydney 300 Barangaroo Avenue Sydney NSW 2000 Australia
Stock exchange listing	Phoslock Environmental Technologies Limited shares are listed on the Australian Securities Exchange (ASX code: PET)
Website	www.phoslock.com.au

Contents

Dear Shareholder,

2020 has been the most tumultuous year in the Company's history. The Covid-19 outbreak became known in January and spread rapidly around the world, followed by severe flooding in southern China and, later in the year, by the discovery of fraud and mismanagement in our China business.

For Phoslock, Covid-19 caused a continuing and significant disruption to both our corporate plans and production. As most governments around the world rapidly curtailed or ceased spending on environmental initiatives in order to address the twin emergencies of public health and their economies, we were unable to sustain sales and reviewed our plans for a new factory.

In late 2019/early 2020 we recruited two outstanding leaders; Lachie McKinnon as CEO, then promoted to Managing Director in May 2020 and Matt Parker, a highly credentialed Chief Financial Officer. Their examination of the internal workings of the Company led to a series of discoveries of wrongdoing in the China operations, including fraud, improper tax reporting and other matters, on which I commented in some detail in the Half Yearly Report released in February. Thanks to their diligence, this discovery led to the instigation of a comprehensive forensic investigation of our business in China. While that was taking place, much of our operational activities in China were halted.

The Covid-related shutdown of international travel necessitated a completely different methodology for the forensic examination of the issues in China and the engagement of independent consultants to assist with that process. We subsequently identified both the extent of the problem and the personnel involved. We are currently assessing options for pursuing those responsible. You will understand that, given the possibility of future litigation, I am unable to expand further, except to say that we are confident that we have quantified the funds fraudulently taken, have removed those involved and are confident that the Company's remaining assets are protected.

I congratulate both Lachie and Matt for the enormous amount of work they have done and the innovative methods they adopted to investigate and address these problems.

It is disappointing that the 2020 financial year accounts have been disclaimed by our auditors and that PET is currently suspended from trading on the ASX. We are working diligently to remedy the situation and will keep you informed of progress.

We are now well on the way to recovery, both in terms of implementing additional internal and external safeguards, as well as finding opportunities for future growth. One key contributor to future growth will be the strengthening of the organisation and Lachie, in his report, makes mention of some of the key strategies and new appointments being made to support our business in markets around the world and details the steps he is taking at management level, which are most encouraging.

While the levels of both air and ground pollution have been somewhat mitigated by reduced global economic activity over the past year, the opposite is true of water. In this year of neglect, global warming has exacerbated water quality issues on every continent. In many countries, the eutrophication of lakes and waterways is creating crisis conditions, which must very soon be addressed.

I am optimistic that governments and authorities around the world will again allocate funds to continue the process of pollution remediation, particularly in water bodies. The Company has the means, both financially and in personnel, to respond to those opportunities as soon as the change begins. And we have new potential products and applications coming through our research and development programs.

This will not be a short-term program of rectification and it will not be small. I believe that it will provide great opportunities for PET that will translate into strong returns for shareholders in coming years.

The Phoslock product is a world leader in water remediation, having proven itself in over 300 applications to be both rapidly effective and safe in the long term. With our strong cash reserves, no debt, new management and an outstanding Board of Directors, I am confident that PET will soon continue on the road to success that was apparent to me when I first joined the Board some 10 years ago.

Having taken the decision to retire some time ago, I decided to defer the timing in order to support our response to the events of the past year and set in train a Board renewal process. We have recently appointed three outstanding new directors; Barry Sechos, David Krasnostein and Bob Prosser, whose impressive corporate histories are detailed elsewhere in this report. Each comes with a strong combination of experience and expertise, giving me great confidence in the future of the Company. On my retirement at the Annual General meeting in May, I will hand over the Chair to David, and Bob will become Chair of the Audit and Risk Committee.

I would also like to acknowledge my Board colleague, Brenda Shanahan, who has not taken a break from tackling the problems from the very first day they were discovered. She has, as usual, applied the full force of her considerable talents and experience to seeking and finding solutions.

So, after more than a decade as a Director and Chairman, and a few more as a shareholder, I wish the enterprise well. I anticipate a strong recovery and substantial success as the world returns to a more normal level of activity.

Yours Sincerely

Laurence Freedman AM
Chairman
PHOSLOCK ENVIRONMENTAL TECHNOLOGY LTD.

Dear Shareholders,

While we reflect on the challenges and learnings of a difficult and disappointing year, it is also important to recognise the significant opportunities for our Company as we focus on a sustainable growth plan that will build value for all stakeholders over coming years.

The Covid-19 pandemic has had far reaching impacts on all of our lives and for businesses and economies around the world. While recovery will take some time, I expect to see positive signs in this current year that attention is being redirected back to addressing the need to remediate and manage our precious water resources. We are a global leader in water remediation technology and ideally positioned to benefit from increased investment in this area.

It will also take time to rebuild our business in China after the disruption caused by fraudulent activity in our Chinese operations. We have previously reported on those matters in some detail and a summary is included in the accompanying Directors' report under 'Board investigations section' on page 11. The 2020 financial year accounts have been significantly impacted by those events – and by the cost of investigative and remedial actions, - and the 2019 financial year results have been restated. The financial impacts across the relevant periods are explained in note 4 to the financial statements on page 44.

It is important to note that, once identified, these matters were thoroughly, and independently investigated and appropriate changes were made as we set about restructuring our China operations.

Our response included:

The engagement of independent specialist consultants to assist with investigations and to support the ongoing running of the business.

A review of all current China contracts and contractual arrangements with third parties, including sub-contractors and distributors, to help provide a sound basis for re-evaluating the company's near and mid-term expectations for revenue generation in China;

The commissioning of an independent market review of the waterways remediation market in China to help assess our opportunity in the region and to better inform decisions relating to organisation, structure, location etc;

The implementation of changes to strengthen PET China's financial reporting procedures, delegated authority policies and general risk management framework; and

The recruitment of experienced management to help lead the rebuilding of the business on a strong and professional basis.

We are now moving forward with our revised marketing plans in China. I am confident that we will see positive outcomes and growing revenues in that market over the next few years.

One important learning from the events in China is the need to have a truly diversified business that is not overly exposed to, or reliant on, any one market. Our new growth strategy is focused on expanding Phoslock's market presence and revenue base across global markets. We are particularly focusing on Europe, the Americas and Asia Pacific to complement our position in China. We have an existing presence in these markets, an excellent track record of successful Phoslock treatments, and ongoing projects and trial work.

We are investing additional resources to support that expansion, including the recruitment of experienced senior managers. Recent appointments include the appointment of a new commercial lead in the USA and a new General Manager for our China business. We are currently recruiting a commercial lead for Europe.

In markets outside of China, we had mixed results in FY20.

In Brazil, despite being severely affected by COVID, sales remained strong, with both new and recurring projects contributing to a good result. In the US, trials were conducted in several lakes, with positive results and we remain confident that these will lead to further sales in the coming year. In Europe, several planned treatments were delayed but not cancelled, due to Covid related restrictions, resulting in a relatively poor year for European sales. These projects should be completed in 2021. In Australia and New Zealand, some smaller treatments occurred but these were limited. In Asia, we appointed a new distributor in Thailand and are expecting positive outcomes from that appointment.

We also see exciting opportunities resulting from a diversification of product and service offerings that will move our Company into new market segments. Our R&D programs are being reviewed to ensure our investment in these new opportunities is targeted and closely managed.

And we are looking to partner with organisations which share an interest in addressing the environmental imperatives around clean water.

A review is also underway to identify efficiency improvements and cost savings relating to supply chains and manufacturing. We have already taken the decision not to proceed with the construction of a second manufacturing plant in China, with a short list of alternative locations for manufacturing expansion now being assessed. A key driver of that decision is to ensure that we mitigate supply risk by having multiple production locations.

These various reviews reflect a determination on the part of the Board and management to closely examine the operations of the Company and to make the changes required to support profitable growth on a sustainable basis.

I know the task of rebuilding investor confidence will take time. But I am genuinely excited by the prospects for Phoslock, and I look forward to your ongoing interest and support as we deliver on the considerable potential of this business.

On behalf of all shareholders, I would like to thank our retiring Chairman, Laurence Freedman, for his significant contribution to our Company over a long period of time. Laurence recognised the potential of the Phoslock technology when first introduced to the concept about 12 years ago and he has been the driving force behind its commercialisation. The Company’s future success will be testament to Laurence’s vision, enthusiasm, business acumen and considerable financial support. I know he will continue to follow our progress with great interest and will remain a strong supporter of the Company.

I would also like to welcome our newly appointed Directors and look forward to working with them as we progress our growth plans.

Yours faithfully

Lachlan McKinnon
Managing Director and CEO

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Phoslock Environmental Technologies Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 31 December 2020.

Directors

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

Laurence Freedman AM
Brenda Shanahan AO
Lachlan McKinnon (appointed on 25 May 2020)
Barry Sechos (appointed on 1 February 2021)
Robert Schuitema (retired on 25 May 2020)
Zhigang Zhang (resigned on 30 September 2020)
Ningping Ma (resigned on 30 September 2020)

Principal activities

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

Dividends

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

Review of operations

The loss for the Group after providing for income tax amounted to $25,734,000 (31 December 2019: $1,083,000).

	Consolidated	
	31 Dec 2020 $'000	31 Dec 2019 Restated $'000
Revenue	6,878	19,757
Net Operating Profit/(Loss) after Tax ('NPAT')	(25,734)	(1,083)
Add: income tax (benefit)/expense	(113)	1,241
Add: Finance costs	204	73
Add: Impairment of receivables	10,935	-
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Add: Share-based expense (reversal)/expense	(30)	30
Add: Foreign exchange losses/(gains)	67	(2)
Less: Interest revenue	(106)	(96)
Underlying Earnings Before Interest and Taxes ('Underlying EBIT') *	(7,396)	352

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

Operating results

Revenue for the period was $6,878,000 down 65% on the $19,757,000 (restated) generated in the prior corresponding period. The business faced considerable headwinds during 2020, including flooding in China and COVID-related impacts which contributed to project delays throughout the period.

Coronavirus (COVID-19) impacted the business through the reporting period via restrictions imposed in key markets to slow the spread of the virus. Restrictions in Beijing caused challenges in business development as key personnel could not visit strategically important clients and sites. China sales were delayed through the period as government officials reprioritised short term emergency resources away from projects such as lake restoration towards immediate health resources. In Europe, several projects were impacted by COVID-19 related delays. In those instances, authorities with which PET has contracted remediation works have cited more pressing expenditure priorities associated with supporting local communities during the pandemic. While these projects have been delayed, none has been cancelled.

Gross profit was $4,103,000 for the full year (Full Year to 31 December 2019: $11,414,000 restated). The gross profit margin was 60% for the full year (Full Year to 31 December 2019: 58% restated). The gross profit margin was slightly up on prior corresponding period as a result of lower project application costs despite having an increased settlement discounts provided to customers to stimulate early payment and unfavourable movements in currency and raw materials costs.

Underlying EBIT for the year was a loss of $7,396,000 compared to a profit of $352,000 in the prior corresponding period (restated). Lower sales revenue and gross margin along with higher operating expenses contributed to the result. The increase in expenses is primarily as a result of higher employee costs, occupancy and professional/consultancy fees. Employee costs included those associated with the transition of the new Managing Director/CEO and Chief Financial Officer and the retirement of former Managing Director, Robert Schuitema. Severance payments to outgoing senior executives also contributed to the increase in the period. Higher professional/consultancy fees were as a result of the forensic board investigation explained below.

NPAT for the Group for the full year amounted to a loss of $25,734,000; (Full Year to 31 December 2019: loss of $1,083,000). The year includes non-cash adjustments to receivables, inventory, plant property & equipment and right-of-use assets. The rationale of each is detailed in the notes of this report. Within the period, the business added to existing tax losses in Australia that will be utilised against forecast profits in future periods.

On 21 of September 2020, the Group identified accounting irregularities with respect to its Chinese operations. The results arising from Board Investigation activities resulted in the restatement of prior period comparatives. Further details regarding the outcome of the Board Investigation and resulting restatements are set out below in the Board Investigation section below and in note 4.

Cash Flows
Operating Cash Flow for the full year was a cash outflow of $12,554,000 (Full Year to 31 December 2019: inflow of $7,565,000).

Cash payments from customers for the year were $6,130,000 (Full Year to 31 December 2019: $27,781,000). Cash payments to suppliers and employees for the full year were $19,568,000 (Full Year to 31 December 2019: $19,146,000). Although similar to the prior corresponding period the composition is somewhat different. The result included higher employee payments, primarily severance payments to separated employees, lower payables and higher inventory levels prior to impairment as the manufacturing plant built safety stocks (in the COVID environment).

New plant, equipment, and intangibles for the full year 2020 totalled $52,000. This was mainly for the Chinese manufacturing facilities.

Financial position
Current assets of the Group as at 31 December 2020 were $37,576,000, made up of cash ($30,441,000); trade and other receivables ($2,726,000) and inventories ($3,959,000) and other assets ($450,000).

Current liabilities of the Group as at 31 December 2020 were $5,258,000 made up of trade / other payables, lease liabilities, employee liabilities and income tax payable.

The net assets of the Group were $29,473,000 as at 31 December 2020 (31 December 2019 restated: $25,757,000), an increase of $3,716,000 from 31 December 2019 restated. The increase in net assets was due primarily to the capital raising undertaken during the reporting period which resulted in the Company receiving a total of $30,004,000 (before capital raising costs). This was primarily offset by impairment actions detailed in the notes of this report. The new equity was raised via three tranches of capital raising activities were as follows:

- 2020 Institutional Placement which issued 24,000,000 ordinary shares raising a total of $12,000,000 before issue costs;
- 2020 Share Placement to ordinary shareholders, where the Company issued 38,308,815 ordinary shares raising a total of $15,154,000 before issue costs; and
- 2020 Share Placement, where the Company issued 5,700,000 ordinary shares to directors and other key management personnel raising a total of $2,850,000 before issue costs.

As a result, cash and cash equivalents increased to $30,441,000 as at 31 December 2020 (31 December 2019: $14,959,000).

The full year financial statements have been prepared on the going concern basis of accounting, which assumes, the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business, supported by the Group's strong cash position (as above) and net current asset position of $32,318,000 as at as at 31 December 2020 (2019: $23,641,000 restated). At balance date, the Group had no external loan facilities.

In response to the accounting irregularities identified in the Group's Chinese operations, the directors and management have taken a number of significant measures to stabilise and rebase the business. While the Group expects to utilise some of its available cash reserves to support its operating activities in the short term, and settle amounts due to external advisors arising from the Board Investigation, the Group's current cashflow forecasts indicate that the cash held by the Group will be sufficient to support its operating activities and pay creditors as and when they fall due for no less than 12 months from the date of this Directors Report.

Significant changes in the state of affairs

On 13 February 2020, a new wholly owned subsidiary, Phoslock Canada Inc., was incorporated.

On 20 February 2020, a new wholly owned subsidiary, Zhejiang Phoslock Environmental Technologies Ltd, was incorporated.

On 17 April 2020, as part of the 2020 Institutional Placement, the Company issued 24,000,000 ordinary shares raising a total of $12,000,000 before issue costs.

On 7 May 2020, as part of the 2020 Share Placement, the Company issued 38,308,815 ordinary shares raising a total of $15,154,000 before issue costs.

On 3 June 2020, as part of the 2020 Share Placement, the Company issued 5,700,000 ordinary shares to directors and other key management personnel raising a total of $2,850,000 before issue costs.

On 17 September 2020 the Group requested a trading halt on the Australia Securities Exchange (ASX). On 21 September 2020 the Group was suspended from quotation under Listing Rule 27.2, pending the outcome of investigations associated with the Group's Chinese operations. As at the date of this Directors' Report the Group remains suspended from quotation.

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

Matters subsequent to the end of the financial year

Since 31 December 2020, the Group's operations have continued to be impacted by the COVID-19 pandemic and related Government actions imposed in key markets to slow the spread of the virus. As the global outbreak of COVID-19 continues to progress and evolve, it is extremely challenging to predict the full extent and duration of its impact on the Group's business activities.

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

On 11 January 2021 the Group signed a lease modification with its landlord in relation to the PETZ ('Zheijang Phoslock Environmental Technologies Ltd (China)') factory which reduced the lease term, square footage and overall cost. This is part of the ongoing effort to right size the business as a result of the investigation findings and current trading conditions.

On 11 March 2021, the Company announced the retirement of Laurence Freedman as Non-Executive Chairman of the Group at the conclusion of the Annual General Meeting in May 2021. The Company also announced the appointment of two Non-Executive Directors, David Krasnostein AM and Bob Prosser, effective 5 April 2021.

No other matter or circumstance has arisen since 31 December 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

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

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

The Group commits to comply with all regulations governing the use and application of its water technology products both in Australia and internationally. 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 existing Changxing factory received the following accreditation from TÜV Rheinland, a German engineering accreditation agency:

- ISO 9001 – certification stating 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; and
- OSHA 18000 - Health and Safety Management Systems.

Phoslock® has been certified by the 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.

In June 2019 Phoslock® was accredited by the Chinese Ministry of Water Resources (MWR) as an approved phosphorus absorption product in the Ministry's official gazette. MWR administers over 100,000 lakes and drinking water reservoirs in China.

In Europe, the product is legally imported and sold under REACH regulation for the region.

Phoslock® has been certified by IBAMA (the Brazilian Ministry for the Environment) for import, sale and use in Brazil. Internationally, the Group is committed to comply with all local regulatory authority requirements.

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

Other than in respect to the Group's Chinese operations, the directors are not aware of any breaches of environmental regulations by the Group in any of the other regions in which the Group operates.

Board investigations

Suspected accounting irregularities in China were first discovered during an internal review of controls that was instigated by corporate head office. In addition, whistle blower complaints received in relation to the Chinese Sales organisation, concurrent with the internal review of controls, revealed further matters requiring investigation.

In response to the identification of these matters the Board brought them to the attention of PET’s auditor, KPMG and initiated an investigation with the assistance of external advisors, including:

- Forensic review performed by KPMG Forensic Team, which focused on the Chinese sales organisation (Phoslock (Beijing) Ecological Engineering Technology Co., Ltd (China) “PBEE” and Beijing Ecosystime Environmental Science and Technology Co., Ltd (China) 'BEST').
- Operational and forensic review performed by FTI, which focused on the Chinese manufacturing operations and interim management of all Chinese operations (Phoslock (Changxing) Water Solutions (China) 'PWSC'.

In respect of KPMG’s appointment to provide forensic accounting services, the Board was satisfied that appropriate safeguards were in place, including separation of the audit and forensic teams. Further, the Board was satisfied that the nature of the allegations and scope of work, which included investigating and establishing facts in connection with the allegations, did not present a risk to auditor independence.

Following the KPMG forensic review the Board identified fraudulent activities relating to areas including accounting and falsification of invoices and service contracts, improper tax reporting, potential misappropriation of funds including improper payment of bonuses, certain payments to third parties where the ultimate beneficiary was unclear, or which are otherwise suspect and undisclosed related party transactions.

In addition, certain payments were made in 2018 where the ultimate beneficiary was unclear. These payments related to a traffic incident involving an employee of an outsourced labour hire company, who was working on a PET project at the time. The individual, who did not hold a driver’s licence and was driving an unregistered vehicle, was involved in a fatal accident with another party. As the individual was engaged to work for a PET subsidiary at the time, senior management deemed that PET was liable for the accident. In response, certain payments totaling A$287,600 were made by PET in the form of compensation, however the ultimate beneficiary of these payments remains unclear. The investigation in relation to this matter is ongoing.

No adjustment has been made to the financial statements for this matter as the economic cost of the payments was recorded as an expense in the period the payments were made.

Following the FTI forensic review, the Board has identified certain payments to third parties where the ultimate beneficiary was unclear, or which are otherwise suspect. It also identified certain payments which had been capitalised as assets where there was no evidence of future economic benefit or unfulfilled performance obligations.

As part of the investigations undertaken by the Board, total payments estimated to be $2,200,000 were identified spanning the previous 30 months from January 2020 where the ultimate beneficiary remains unclear. The results of the Board Investigations suggest that these payments have a heightened risk of being associated with possible fraud and other illegal activity. These amounts have been recognised as an expense within the Statement of Profit or Loss and other comprehensive income in each respective period, reflecting the economic loss to the Group arising from the outflow of economic benefits associated with these payments.

In response to these matters, the Group undertook a thorough review of its financial position and related party relationships in order to identify, quantify and account for transactions connected with the above noted activities. The outcome of this review resulted in a number of adjustments and therefore restatements to the Group’s financial statements for prior periods. These outcomes are reflected in note 4 Restatement of Comparatives.

The directors believe that the provision of this information is important to assist in understanding the effects of the above noted activities on the Group's financial performance, reflecting the best information available to the directors as at the date of this financial report.

Further, the Group has already:

- Completed a restructuring of its organisation in China, with a number of senior and middle management employees terminated;
- Completed a comprehensive and systematic review of all current China contracts and contractual arrangements with third parties, including sub-contractors and distributors, to help provide a sound basis for re-evaluating the Company's near and mid-term expectations for revenue generation in China;
- Commissioned an independent market review of the waterways remediation market in China to help assess our opportunity in the region and better inform decisions relating to organisation structure, location etc;
- Implemented changes which will strengthen PET China's financial reporting procedures, delegated authority policies and general risk management framework;
- Updated and strengthened Company policies and procedures which included disseminating formal delegated levels of authority and dual / cross border authorising of all banking transactions; and
- In order to be able to better identify and assess potential risks such as financial, operational, environmental and legal risks, the Company conducted a deep dive risk review that enabled the production of detailed risk treatment strategies and business continuity plans.

Employee share options

In June 2017, a total of 65,000,000 share options were approved for issue by the Board and Company shareholders. Of this balance:

- 20 million share options were approved to be issued to employees and directors of Phoslock (Beijing) Ecological Engineering Technology Co Ltd (PBEE), a wholly owned subsidiary of the Company. As part of the forensic investigation, it was identified that the process for allocating the options lacked governance oversight and the process for measuring the performance of vesting conditions was unclear and subject to judgement. Of the options issued, 10.4 million were ultimately exercised by parties other than PBEE employees and directors, including employees of Beijing BHZQ Environmental Engineering Technology Co., Limited (BHZQ) (a previously undisclosed director related party of Mr Zhigang Zhang, and one of the Group's largest customers), in contravention of the conditions of the share options;
- 30 million share options were approved to be issued to China Environmental Corporation Australia Pty Ltd (CEC) (a previously undisclosed director related party of Mr Zhigang Zhang and Mr Ningping Ma). The options were allocated to shareholders of CEC, the majority of whom also worked for or had an indirect shareholding in BHZQ (a previously undisclosed director related party of Mr Zhigang Zhang, and one of the Group's largest customers). The options were subject to the same performance conditions as the 20 million options discussed above, however there was no service condition attached. As part of the forensic investigation, it was identified that the process for allocating the options lacked governance oversight and the process for measuring the performance of vesting conditions was unclear and subject to judgement; and
- the remaining 15 million options were appropriately issued to employees of the Group and subject to the same vesting conditions as the 20 million options discussed above. As part of the forensic investigation, it was identified that the process for measuring the performance of vesting conditions was unclear and subject to judgement.

The accounting fair value for the 65,000,000 options of $3,458,391 was expensed by the Group over the period from 16 July 2017 to 30 June 2019. 100% of the options were exercised between 27 November 2018 and 12 September 2019. The Group has no recourse in relation to options that vest which have been exercised.

In December 2019, an additional 20,000,000 share options were approved for issue by the Board and Company shareholders to PET Chinese employees. As part of the Board investigation, it was identified that the process for allocating the options lacked governance oversight. These options have not vested and are unlikely to meet their vesting conditions so are likely to expire.

In response to these circumstances and events the Chairman of the Nomination and Remuneration Committee has commissioned a full review of the long term incentive schemes of the Company to conform with best practice and to be better aligned with shareholders' interests.

Information on directors

Name:	Laurence Freedman AM
Title:	Non-Executive Chairman
Qualifications:	CPA, MAusIMM
Experience and expertise:	Laurence has a long history of involvement and expertise in public companies with international trading and investment activities. He began his career with the Gold Fields Group: initially an analyst, he rose to director of Group companies. He later joined BT Australia as Manager, Investments.
Other current directorships:	Chairman of The Freedman Foundation
Former directorships (last 3 years):	None
Special responsibilities:	Member of Remuneration and Nomination Committee
Interests in shares:	69,483,912 ordinary shares
Interests in options:	None

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

Name:	Lachlan McKinnon (appointed on 25 May 2020)
Title:	Executive Director and CEO
Qualifications:	Bachelor of Agricultural Science, Graduate Diploma of Business (Agribusiness), Master of Enterprise and Harvard Business School Short Course - Agribusiness
Experience and expertise:	Lachlan has worked for Nufarm Limited (ASX: NUF) in various management roles in Australia, Europe and North America since 1994. Nufarm is a leading agricultural chemicals business (FY2018/19 Sales $3.8 billion) with manufacturing and marketing operations based in Australia, New Zealand, Asia, Europe and the Americas. He has significant overseas sales and marketing experience. He was most recently (2016-19) Country Manager for Canada and Head of Marketing for the Americas. Previously, he has spent four years leading and developing Nufarm's Northern Europe business.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of Nomination Committee and Audit Committee
Interests in shares:	500,000 ordinary shares
Interests in options:	3,000,000 options

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

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

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

Company Secretary

Matthew Parker (appointed on 11 May 2020)

Matthew is an experienced finance professional having previously held the position of Group CFO of Private Equity owned portfolio businesses and ASX listed entities. Mr Parker has also held key finance roles at the Ford Motor Company and Cadbury Schweppes. Prior to joining Phoslock, Matthew was the CFO of GALE Pacific Limited (ASX:GAP).

He is a Certified Practising Accountant and holds a Bachelor's degree in Business (Accounting) and Arts (Japanese). He is a registered member of CPA Australia and an affiliate of the Securities Institute of Australia.

Chris Hui (resigned on 12 June 2020)

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 31 December 2020, and the number of meetings attended by each director were:

	Full Board		Nomination and Remuneration Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Laurence Freedman AM	11	11	2	2	-	-
Brenda Shanahan AO	11	11	2	2	1	1
Lachlan McKinnon	11	11	2	2	1	1
Barry Sechos	-	-	-	-	-	-
Robert Schuitema	4	4	1	1	1	1
Zhigang Zhang	7	7	1	1	-	-
Ningping Ma	7	7	1	1	-	-

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

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

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

The remuneration report is set out under the following main headings:
- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration
The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:
- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation; and
- transparency.

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

The Nomination and Remuneration Committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the Group. The Nomination and Remuneration Committee has recently commenced a review of the renumeration of key executives in consultation with external remuneration consultants to ensure objectives are aligned between executives and shareholders.

The reward framework is designed to align executive reward to shareholders' interests. The Board has considered that it should seek to enhance shareholders' interests by:
- having profitable growth as a core component of plan design;
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracting and retaining high calibre executives.

Additionally, the reward framework should seek to enhance executives' interests by:
- rewarding capability and experience;
- reflecting competitive reward for contribution to growth in shareholder wealth; and
- providing a clear structure for earning rewards.

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

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

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

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

The executive remuneration and reward framework has four components:
- base pay and non-monetary benefits;
- short-term performance incentives;
- share-based payments; and
- other remuneration such as superannuation and long service leave.

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

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

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

The CFO is under a 12-month restraint, with no pro rata availability. The term beginning 1st November 2020. Executives cannot be in a resignation notice period during period of restraint. The amount awarded is equal to 50% of base salary.

The short-term incentives ('STI') program is designed to align the targets of the business units with the performance hurdles of executives. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved. KPI's include profit contribution, customer satisfaction, leadership contribution and product management.

The long-term incentives ('LTI') include long service leave and share-based payments. Shares are awarded to executives over a period of three years based on long-term incentive measures. These include increase in shareholders value relative to the entire market and the increase compared to the Group's direct competitors. The Nomination and Remuneration Committee reviewed the long-term equity-linked performance incentives specifically for executives during the year ended 2020 in Feb 2020. In response to the board investigation, the Nomination and Remuneration Committee has commenced a review of the Company's long term incentive schemes to ensure best governance practise and to better align shareholders' interests with Company results.

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

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

Use of remuneration consultants
During the financial year ended 31 December 2020, the Group did not engage the use of remuneration consultant, to review its existing remuneration policies and provide recommendations on how to improve both the STI and LTI programs. However, as noted earlier, a review of the Company's long term incentive schemes commenced in 2021 as a result of the board investigation.

Voting and comments made at the Company's 2019 Annual General Meeting ('AGM')
At the 25 May 2020 AGM, 89.59% of the votes received supported the adoption of the remuneration report for the year ended 31 December 2019. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

Amounts of remuneration

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

The key management personnel of the Group consisted of the directors of Phoslock Environmental Technologies Limited and the following persons:

- Matthew Parker - Group Chief Financial Officer (appointed 11 May 2020) and Company Secretary (appointed 11 May 2020)
- Nigel Trail - General Manager – Europe and North America
- Andrew Winks - General Manager – Operations based in Brisbane, Australia
- Zhaopeng (Jason) Hai - General Manager – China Operations – Changxing Factory
- Chris Hui - Group Financial Controller (resigned on 12 June 2020)
- Tingshan Liu - General Manager – China Sales (resigned on 31 December 2020)

Changes since the end of the reporting period:
Barry Sechos was appointed as Non-Executive Director effective 1 February 2021.

Harry D Knight was appointed as Commercial Lead for the United States of America on 18 January 2021.

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

	Short-term benefits				Post-employment benefits	Long-term benefits	Share-based payments	
	Cash salary and fees	Cash bonus	Allowance	Non-monetary	Super-annuation	Long service leave	Equity-settled	Total
31 Dec 2019 Restated	$	$	$	$	$	$	$	$
Non-Executive Directors:								
Laurence Freedman AM	83,333	-	-	-	8,333	-	-	91,666
Brenda Shanahan AO	70,000	-	-	-	7,000	-	-	77,000
Zhigang Zhang	83,333	-	-	-	8,333	-	-	91,666
Ningping Ma	58,333	-	-	-	6,417	-	-	64,750
Executive Directors:								
Lachlan McKinnon	-	-	-	-	-	-	30,392	30,392
Robert Schuitema*	417,897	27,168	81,715	-	29,220	72,783	-	628,783
Other Key Management Personnel:								
Nigel Trail	166,366	15,000	33,717	-	18,137	3,069	-	236,289
Andrew Winks	149,538	12,000	29,200	-	19,074	2,620	-	212,432
Chris Hui	112,000	9,334	7,800	-	12,913	-	-	142,047
Tingshan Liu	141,609	11,296	8,199	-	26,311	-	-	187,415
Zhaopeng (Jason) Hai	99,963	18,743	-	13,621	23,879	-	-	156,206
	1,382,372	93,541	160,631	13,621	159,617	78,472	30,392	1,918,646

* The amounts disclosed for the prior Managing Director Robert Schuitema in 2019 has been amended to include previously undisclosed personal expense reimbursements of $62,465.

As detailed in note 4, the Group made bonus payments relating to the 2019 financial year of $507,000 to a third party, the ultimate beneficiary of which remains unclear and may have included employees and directors of the Group's Chinese subsidiaries identified as Key Management Personnel. This amount was not included in the prior year Remuneration Report as the payment was incorrectly recorded in 2020 through fictitious documentation characterising it as prepaid labour costs. As the records associated with these bonus payments are conflicting and not reliable, the $507,000 has not been included in the restated remuneration table above as cash bonus relating to the 2019 year as the recipients remain unclear. The expense has however been recognised in the restated financial report as disclosed in note 4.

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

	Fixed remuneration		At risk - STI		At risk - LTI	
Name	31 Dec 2020	31 Dec 2019 Restated	31 Dec 2020	31 Dec 2019 Restated	31 Dec 2020	31 Dec 2019 Restated
Non-Executive Directors:						
Laurence Freedman AM	100%	100%	-	-	-	-
Brenda Shanahan AO	100%	100%	-	-	-	-
Zhigang Zhang	100%	100%	-	-	-	-
Ningping Ma	100%	100%	-	-	-	-
Executive Directors:						
Lachlan McKinnon	100%	-	-	-	-	100%
Robert Schuitema	100%	96%	-	4%	-	-
Other Key Management Personnel:						
Matthew Parker	90%	-	10%	-	-	-
Nigel Trail	100%	94%	-	6%	-	-
Andrew Winks	100%	94%	-	6%	-	-
Zhaopeng (Jason) Hai	89%	88%	11%	12%	-	-
Chris Hui	100%	93%	-	7%	-	-
Tingshan Liu	90%	94%	10%	6%	-	-

Service agreements

Name:	Lachlan McKinnon
Title:	Managing Director
Agreement commenced:	27 November 2019
Term of agreement:	Ongoing - no fixed minimum term
Details:	Annual base salary of $475,000 pa Short-term incentive: 30% base salary (maximum) pa subject to achieving a range of KPI's determined by the Board.

Employment contracts for senior executives stipulate a range of one to three-month resignation periods (six months for the Managing Director / Chief Executive Officer and CFO). The Company may terminate a contract of employment without cause by providing written notice or making payment in lieu of notice for a period equivalent to the resignation period (six months for the Managing Director / Chief Executive Officer and CFO). Termination payments are not payable on dismissal for serious misconduct. In the instance of serious misconduct, the Company can terminate employment at anytime.

Share-based compensation

Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 31 December 2020.

Options

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

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

Options granted carry no dividend or voting rights.

There were no options over ordinary shares granted to or vested by directors and other key management personnel as part of compensation during the year ended 31 December 2020.

Additional information

The earnings of the Group for the five years to 31 December 2020 are summarised below:

	2020 $'000	2019 $'000	2018 $'000	2017 $'000	2016 $'000
Sales revenue	6,878	19,757	15,707	3,825	1,731
Underlying EBIT	(7,396)	352	3,744	(885)	(785)
Profit/(loss) after income tax	(25,734)	(1,083)	108	(3,387)	(2,314)

Additional disclosures relating to key management personnel

Shareholding

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

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Ordinary shares					
Laurence Freedman AM	69,183,912	-	300,000	-	69,483,912
Brenda Shanahan AO	1,306,500	-	200,000	-	1,506,500
Lachlan McKinnon	-	-	500,000	-	500,000
Robert Schuitema (retired on 25 May 2020)	9,547,503	-	-	-	9,547,503
Zhigang Zhang (resigned on 30 September 2020)	25,000,000	-	1,604,000	(1,500,000)	25,104,000
Ningping Ma (resigned on 30 September 2020)	2,245,990	-	-	-	2,245,990
Matthew Parker	-	-	-	-	-
Nigel Trail	3,240,227	-	-	(50,000)	3,190,227
Andrew Winks	2,645,975	-	-	-	2,645,975
Zhaopeng (Jason) Hai	1,000,000	-	200,000	-	1,200,000
Chris Hui (resigned on 12 June 2020)	1,013,040	-	-	-	1,013,040
Tingshan Liu (resigned on 31 December 2020)	5,500,000	-	813,120	(50,000)	6,263,120
	120,683,147	-	3,617,120	(1,600,000)	122,700,267

Option holding

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

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
Options over ordinary shares					
Lachlan McKinnon	3,000,000	-	-	-	3,000,000
China Team - 2020*	20,000,000	-	-	(20,000,000)	-
Int'l Team - 2020	5,000,000	-	-	(5,000,000)	-
	28,000,000	-	-	(25,000,000)	3,000,000

* In December 2019, an additional 20,000,000 share options were approved for issue by the Board to PET Chinese employees and 5,000,000 to PET International employees. As part of the Board investigation, it was identified that the process for allocating the options lacked governance oversight. As a result, these options have not been allocated to individuals in the table above. These options will not vest as the performance conditions have not been met and therefore have expired.

This concludes the remuneration report, which has been audited.

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

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

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

Shares issued on the exercise of options
The following ordinary shares of Phoslock Environmental Technologies Limited were issued during the year ended 31 December 2020 and up to the date of this report on the exercise of options granted:

Date options granted	Exercise price	Number of shares issued
7 May 2020	$0.50	30,308,815

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

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

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

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

Proceedings on behalf of the Company
No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services
Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 22 to the financial statements.

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

The directors are of the opinion that the services as disclosed in note 22 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

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

Officers of the Company who are former partners of KPMG

There are no officers of the Company who are former partners of KPMG.

Extended reporting and lodgement deadlines

Pursuant to subsection 340(1) of the Corporations Act 2001, the Group was permitted to lodge its 31 December 2020 Annual Report with ASIC by 30 April 2021.

Rounding of amounts

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

Auditor's independence declaration

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

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

On behalf of the directors

Lachlan McKinnon
Managing Director

31 March 2021

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

To the Directors of Phoslock Environmental Technologies Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Phoslock Environmental Technologies Limited for the financial year ended 31 December 2020 there have been:

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

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

KPMG

SarahCain

KPMG

Sarah Cain

Partner

Melbourne

31 March 2021

KPMG, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.

Liability limited by a scheme approved under Professional Standards Legislation.

Introduction

Phoslock Environmental Technologies Limited (**PET**) is committed to create shareholder value and meet the expectation of stakeholders to practice sound corporate governance. The Board of Directors guides and monitors the business and affairs of PET on behalf of the shareholders by whom they are elected and to whom they are accountable.

The following formalises the main corporate governance practices established and in force throughout the financial year in the framework of the ASX Corporate Governance Principles and Recommendations (4th edition) (**Recommendations**) to ensure the Board is well equipped to discharge its responsibilities.

This statement is current as at 26 March 2021 and has been approved by the Board of Directors.

Board

Introduction

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

Composition of the Board

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

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

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

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

The Board will review its composition on an annual basis to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, for whatever reason, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board will select appropriate candidates with relevant qualifications, skills and experience.

Before a person is appointed as Director or put forward for election as a Director, PET undertakes appropriate evaluations. These include independent checks of a candidate's character, experience, education, criminal record, bankruptcy history. External advisers may be used to assist in such a process. The Board will then appoint the most suitable candidate, who must stand for election at the next general meeting of shareholders.

The Primary responsibilities of the Board include:

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

PET ensures that all Directors and Senior Executives enter into written agreements setting out the terms of their appointment, together with key Company documents and information, setting out their term of office, duties, rights and responsibilities, entitlements on termination and the procedures for dealing with conflicts of interest and the availability of independent professional advice.

The performance of all Directors will be reviewed by the Chair each year. The performance of all key executives, including the Managing Director, is reviewed annually against a set of financial and non-financial goals.

Independent professional advice

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

Remuneration

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

Nomination Committee

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

Audit & Risk Committee

The Board shall maintain an Audit & Risk Committee of at least 2 Directors. Audit & Risk Committee meetings may also be attended, by invitation, by the external auditors. The role of the Committee will be to provide a direct link between the Board and the external auditors.
It will also give the Board additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining the matters for inclusion in the financial statements.

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

The responsibilities of the Audit & Risk Committee include:

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

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

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

Business risk

The Board will mentor and receive advice on areas of operational and financial risks and consider strategies for appropriate risk management arrangements.
Specific areas of risk identified initially and regularly considered at Board Meetings include risks associated with business and investment, new and rapidly evolving markets, technological change, competition and business and strategic alliances, the environment and continuous disclosure obligations.

Authority limits

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

Confidentiality

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

Ethical standards

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

The Board's policy is for the Directors and Senior Management to conduct themselves with the highest ethical standards. All Directors and employees will be expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the Company. A copy of Company's Code of Conduct can be found on the Company's website www.phoslock.com.au/investors/corporate-governance

Trading in Phoslock Environmental Technologies Limited Securities

The Board's policy with regard to trading in the Company's securities is that prior to any transaction, Directors and officers must obtain clearance from the Chair, Managing Director or Company Secretary to ensure that no transactions are made where the Director or officer is in possession of price sensitive information. A copy of Company's Share Trading Policy can be found on the Company's website www.phoslock.com.au/investors/corporate-governance

Confidentiality

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

Dealing with conflicts of interest

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

A conflict will arise:

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

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

Whistleblower policy

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

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

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

Anti-bribery and corruption policy

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

PET does not permit:

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

Price Sensitive Information Policy

The purpose of the Price Sensitive Information Policy is to uphold PET's commitment to taking a proactive approach to continuous disclosure and creating a culture within PET that promotes and facilitates compliance with the company's continuous disclosure obligations.

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

ASX Principle	Company Status & Reference/Comment
Principle 1: Lay solid foundations for management and oversight	
The listed entity should disclose:	
1.1(a) Roles & Responsibilities of Board and Management	A Roles and responsibilities of Board and Management are defined; Board reviewing and updating these
1.1(b) Matters reserved for the Board and those delegated to management	A Matters reserved for Board and Management are defined; Board reviewing and updating these
1.2(a) Appropriate checks before appointing or nominating a new Director	A Nomination committee responsible for ensuring this occurs
1.2(b) Provide shareholders with material information for reappointment or election of new Director	A Nomination committee responsible for ensuring this occurs
1.3 Written agreement with each Director and Senior Executive	A Written agreements in place; Board reviews all existing agreements annually
1.4 Company Secretary accountable to Board, via Chair	A Company Secretary is accountable to the Board via Chair.
1.5 Company should have a Diversity Policy	A Company has approx. 50 employees ranging from low skilled factory workers to technical specialists with PhD's. The Company operates in 20 countries and requires fluent speakers of a number of languages. The Company's policy is to employ the person most suited to the job requirements along with applicable language skills for the country or countries that they are working in.
1.6(a) Board should have policy of evaluating Board, its Directors and Committees	A The Board reviews its composition and performance on an annual basis
1.6(b) Company should disclose whether a performance evaluation has been undertaken during the reporting period	A Company undertook a performance evaluation during the reporting period by the Chair
1.7(a) Periodic evaluation of senior executives	A Company undertook an annual review evaluating each Senior Executive during the reporting period
1.7(b) Company should disclose whether a performance evaluation has been undertaken during the reporting period	A Company undertook a performance evaluation during the reporting period

ASX Principle	Company Status & Reference/Comment
Principle 2: Structure the Board to add Value	
2.1 Company should have a Nomination Committee	A Company has a Nomination Committee currently comprising all Directors Nomination Committee Charter is on Company website
2.2 Company should disclose skills of each Director	A The skills and experience of each Director is set out in the Company's Annual Report and on the Company's website.
2.3(a) Company should disclose which Directors are considered to be independent	A Company details which Director is independent
2.3(b) Company should detail reasons why a Director is independent	A Company has detailed on page 24 reasons why the some Directors are considered independent
2.3(c) Company should detail the length of service of each Director	A The length of service of each Director is set out in the Company's Annual Report and on the Company's website
2.4 A majority of Directors should be independent	A Two of the four Directors are considered to be Independent Non-Executive Directors
2.5 The Chair of the Board should be an Independent Director The position of Chair and CEO/MD should not be held by the same person	A The Company's Chairman given his substantial holding is not considered an independent non-executive director. The board is satisfied that the chairman is not involved in any day to day decision making of the Company. A The positions of Chair and CEO/MD are not held by the same person
2.6 Company should provide an induction program for new Directors Directors should be given opportunity to develop skills and knowledge for role as Director	A Company provides an induction program for new Directors A Company will discuss with Chair and Directors if development support is required
Principle 3: Act Ethically and Responsibly	
3.1(a) Company should have a Code of Conduct for its Directors, executives and employees	A Company has an Code of Conduct
3.1(b) Company should disclose the Code of Conduct	A The Code of Conduct is published on the Company's website
Principle 4: Safeguard Integrity in Corporate Reporting	
4.1(a) Company should have an Audit Committee	A Company has an Audit and Risk Committee
4.1(a)(1) Audit Committee should comprise at least three Directors, majority of whom are independent	A Audit and Risk Committee currently has three members, and two are Non-Executive Directors. The Board on an on-going basis evaluates the appropriateness of the composition of the Committee

ASX Principle		**Company Status & Reference/Comment**	
4.1(a)(2)	Audit Committee should be chaired by an Independent Director	A	Audit and Risk Committee is chaired by an Independent Director
4.1(a)(3)	Audit Committee should have a charter which is published	A	Audit and Risk charter is published on the Company's website
4.1(a)(4)	Relevant experience of each member of Audit Committee disclosed	A	The experience of each member of the Audit and Risk Committee is set out in the Company's Annual Report and on the Company's website
4.1(a)(5)	Report the number of meetings of the Audit Committee and those who attended	A	The number of meetings and attendance of Directors at the Audit and Risk Committee meetings is set out in the Company's Annual Report
4.2	Board should receive a Declaration from MD/CEO and CFO that financial statements have been prepared properly and Company has appropriate controls in place	A	MD/CEO and CFO provide a signed declaration that financial statements have been prepared properly and Company has appropriate controls in place
4.3	Company should ensure that external auditors attend AGM and available to answer questions	A	External auditors attend Company's AGM and are available to answer questions
Principle 5: Make Timely and Balanced Disclosure			
5.1(a)	Company should have a written policy for complying with the ASX Listing Rules Continuous Disclosure	A	Company is fully aware of its obligations with the ASX Listing Rules Continuous Disclosure. The Continuous Disclosure policy is published on the Company's website
5.1(b)	Company should disclose the policy or a summary of it	A	Company is fully aware of its obligations with the ASX Listing Rules Continuous Disclosure. The Continuous Disclosure policy is published on the Company's website
Principle 6: Respect the Right of Security Holders			
6.1	Company should provide information about itself and its governance to investors via its website	A	Company's website provides information about the Company and its governance
6.2	Company should implement an investor relations program to facilitate two way communication with investors	A	Given its size, Company uses ASX releases and its website to communicate material information to investors. A consultant has been engaged to assist with investor communications
6.3	Company should disclose policies and processes to encourage participation at meetings of security holders	A	Company encourages participation at all meetings of security holders. All security holders are sent information about a meeting in the Notice of Meeting and any accompanying materials well in advance of the meeting; at each meeting security holders are given ample opportunity to raise issues or ask questions
6.4	Security holders should be given the option to receive communication and send communication electronically	A	Company is working with its Share Registrar to get email addresses of all its shareholders to enable documents to be sent electronically

ASX Principle		**Company Status & Reference/Comment**	
Principle 7: Recognise and Manage Risk			
7.1	Company should have a Risk Management Committee	A	Company has an Audit and Risk Committee which covers Risk Management
7.2(a)	Board undertakes an annual review of Risk Management	A	Risk Management issues are discussed at each Directors' meeting
7.2(b)	Board should disclose whether a Risk Management review took place	A	Company reports Risk Management review in Directors' Report to security holders
7.3(a)	Company should disclose if it has an internal audit function	A	Company does not have an internal audit function.
7.3(b)	If no internal audit function, what is Company doing to monitor risk management	A	Company has internal controls to manage risk issues
7.4	Company should disclose if it has any material exposure to economic, environmental and social sustainability risks	A	Company discloses major risks in Directors' Report in Annual Report
Principle 8: Remunerate Fairly and Responsibly			
8.1(a)	Company should have a Remuneration Committee	A	Company has a Remuneration Committee
8.1(a)(1)	Remuneration Committee should comprise at least three Directors, majority of whom are independent	A	Remuneration Committee comprises three Directors, 2 of which are independent
8.1(a)(2)	Remuneration Committee should be chaired by an Independent Director	A	Remuneration Committee is chaired by an Independent Director
8.1(a)(3)	Remuneration Committee should have a charter which is published	A	Remuneration Committee charter is published on the Company's website
8.1(a)(4)	Relevant experience of each member of Remuneration Committee disclosed	A	The experience of each member of the Remuneration Committee is set out in the Company's Annual Report and on the Company's website
8.1(a)(5)	Report the number of meetings of the Remuneration Committee and those who attended	A	The number of meetings and attendance of Directors at the Remuneration Committee meetings is set out in the Company's Annual Report
8.2	Company should disclose remuneration policies	A	These are detailed in the Directors' Report in the Annual Report
8.3	If Company has an equity based remuneration scheme, can participants limit risk through use of derivatives or other instruments	A	There is currently no derivatives market for PET equities

Phoslock Environmental Technologies Limited
Statement of profit or loss and other comprehensive income
For the year ended 31 December 2020

	Note	Consolidated 31 Dec 2020 $'000	Consolidated 31 Dec 2019 Restated $'000
Revenue			
Sales revenue		6,878	19,757
Cost of sales		(2,775)	(8,343)
Gross profit		4,103	11,414
Other income	7	298	571
Interest revenue calculated using the effective interest method		106	96
Expenses			
Distribution		(98)	(159)
Marketing		(336)	(643)
Occupancy		(342)	(129)
Director, listing and professional fees		(4,124)	(2,869)
Administration		(6,964)	(7,831)
Impairment of receivables	10	(10,935)	-
Impairment of assets	8	(7,381)	(189)
Option expenses		30	(30)
Finance costs	8	(204)	(73)
Profit/(loss) before income tax benefit/(expense)		(25,847)	158
Income tax benefit/(expense)	9	113	(1,241)
Loss after income tax benefit/(expense) for the year attributable to the owners of Phoslock Environmental Technologies Limited		(25,734)	(1,083)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		408	(226)
Other comprehensive income for the year, net of tax		408	(226)
Total comprehensive income for the year attributable to the owners of Phoslock Environmental Technologies Limited		(25,326)	(1,309)
		Cents	**Cents**
Basic earnings per share	28	(4.25)	(0.21)
Diluted earnings per share	28	(4.25)	(0.21)

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

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

Phoslock Environmental Technologies Limited
Statement of financial position
As at 31 December 2020

	Note	31 Dec 2020 $'000	Consolidated 31 Dec 2019 Restated $'000	31 Dec 2018 Restated $'000
Assets				
Current assets				
Cash and cash equivalents		30,441	14,959	4,878
Trade and other receivables	10	2,726	12,443	17,762
Inventories	11	3,959	4,726	2,408
Other	12	450	848	449
Total current assets		37,576	32,976	25,497
Non-current assets				
Other financial assets		-	-	26
Property, plant and equipment	13	73	1,566	1,466
Right-of-use assets	14	165	699	-
Intangibles	15	209	196	136
Deferred tax	9	-	-	358
Total non-current assets		447	2,461	1,986
Total assets		38,023	35,437	27,483
Liabilities				
Current liabilities				
Trade and other payables	16	3,815	7,726	2,478
Lease liabilities	17	544	352	72
Income tax	9	603	708	954
Employee benefits		296	549	388
Total current liabilities		5,258	9,335	3,892
Non-current liabilities				
Lease liabilities	17	3,292	326	-
Other		-	19	41
Total non-current liabilities		3,292	345	41
Total liabilities		8,550	9,680	3,933
Net assets		29,473	25,757	23,550
Equity				
Issued capital	18	92,459	63,387	59,901
Reserves	19	985	607	6,001
Accumulated losses		(63,971)	(38,237)	(42,352)
Total equity		29,473	25,757	23,550

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

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

Consolidated	Issued capital $'000	Option reserves $'000	Foreign currency translation reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 January 2019	59,901	5,198	808	(41,911)	23,996
Restatement of comparatives (note 4)	-	-	(5)	(441)	(446)
Balance at 1 January 2019 - restated	59,901	5,198	803	(42,352)	23,550
Loss after income tax expense for the year	-	-	-	(1,083)	(1,083)
Other comprehensive income for the year, net of tax	-	-	(226)	-	(226)
Total comprehensive income for the year	-	-	(226)	(1,083)	(1,309)
Transactions with owners in their capacity as owners:					
Options exercised	3,486	-	-	-	3,486
Option expense	-	30	-	-	30
Option transfer to accumulated losses	-	(5,198)	-	5,198	-
Balance at 31 December 2019	63,387	30	577	(38,237)	25,757

Consolidated	Issued capital $'000	Option reserves $'000	Foreign currency translation reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 January 2020	63,387	30	577	(38,237)	25,757
Loss after income tax benefit for the year	-	-	-	(25,734)	(25,734)
Other comprehensive income for the year, net of tax	-	-	408	-	408
Total comprehensive income for the year	-	-	408	(25,734)	(25,326)
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (note 18)	29,072	-	-	-	29,072
Share-based payments (note 29)	-	(30)	-	-	(30)
Balance at 31 December 2020	92,459	-	985	(63,971)	29,473

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

	Note	Consolidated 31 Dec 2020 $'000	Consolidated 31 Dec 2019 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		6,130	27,781
Receipts from research and development grant and other income		620	348
Payments to suppliers and employees (inclusive of GST)		(19,568)	(19,146)
Interest received		106	96
Interest and other finance costs paid		(1)	(73)
Income taxes refunded/(paid)		159	(1,441)
Net cash from/(used in) operating activities	27	(12,554)	7,565
Cash flows from investing activities			
Payments for property, plant and equipment	13	(31)	(554)
Payments for intangibles	15	(21)	(64)
Net cash used in investing activities		(52)	(618)
Cash flows from financing activities			
Proceeds from issue of shares	18	30,004	-
Proceeds from exercise of options		-	3,517
Share issue transaction costs		(932)	(31)
Repayment of lease liabilities		(1,113)	(348)
Net cash from financing activities		27,959	3,138
Net increase in cash and cash equivalents		15,353	10,085
Cash and cash equivalents at the beginning of the financial year		14,959	4,878
Effects of exchange rate changes on cash and cash equivalents		129	(4)
Cash and cash equivalents at the end of the financial year		30,441	14,959

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

Note 1. General information

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

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

Level 16
1 Collins St
Melbourne, VIC 3000

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 31 March 2021. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

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

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

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

Conceptual Framework for Financial Reporting (Conceptual Framework)

The Group has adopted the revised Conceptual Framework from 1 January 2020. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards, but it has not had a material impact on the Group's financial statements.

Going concern

The financial statements have been prepared on the going concern basis of accounting, which assumes, the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business, supported by the Group’s strong cash position and net current asset position of $32,180,000 as at 31 December 2020 (2019: $23,641,000 restated). At balance date, the Group had no external loan facilities. The directors have formed the view that the financial statements should be prepared on a going concern basis after considering the following key assumptions; the Groups forecast cashflows demonstrate sufficient cash flows for the following 12 months and are based on the fact there are no litigation matters currently against the Group.

Basis of preparation

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

Historical cost convention

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

Note 2. Significant accounting policies (continued)

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

Parent entity information
In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 30.

Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Phoslock Environmental Technologies Limited ('Company' or 'parent entity') as at 31 December 2020 and the results of all subsidiaries for the year then ended. Phoslock Environmental Technologies Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

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

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

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

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

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

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

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

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

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

Note 2. Significant accounting policies (continued)

Revenue recognition
The Group recognises revenue as follows:

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

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

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

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

Research and development grant
Research and development grant are recognised at fair value where there is a reasonable assurance that the grant will be received, and all grant 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.

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

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

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

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

Note 2. Significant accounting policies (continued)

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

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

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

Current and non-current classification

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

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

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

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

Cash and cash equivalents

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

Trade and other receivables

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

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

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

Inventories

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

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

Investments and other financial assets

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

Note 2. Significant accounting policies (continued)

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

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

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

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

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

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

Plant and equipment	10 years
Motor vehicles	3 years

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

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

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

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

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

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

Note 2. Significant accounting policies (continued)

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

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

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

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

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

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

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

Employee benefits

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

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

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

Note 2. Significant accounting policies (continued)

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

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

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

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

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

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

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

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

Issued capital
Ordinary shares are classified as equity.

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

Earnings per share

Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to the owners of Phoslock Environmental Technologies Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Note 2. Significant accounting policies (continued)

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

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

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

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

Rounding of amounts

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 31 December 2020. The Group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

Note 3. Critical accounting judgements, estimates and assumptions

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

Coronavirus (COVID-19) pandemic

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

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

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

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience, historical collection rates, the impact of the COVID-19 pandemic and forward-looking information that is available. The allowance for expected credit losses, as disclosed in note 10, is calculated based on the information available at the time of preparation. The actual credit losses in future years may be higher or lower

Provision for impairment of inventories

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

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

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

Uncertain tax positions

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

Note 4. Restatement of comparatives

Suspected accounting irregularities in China were first discovered during an internal review of controls which was instigated by corporate head office. In addition, whistle blower complaints received in relation to the Chinese Sales organisation, concurrent to the internal review of controls, revealed further matters requiring investigation.

In response to the identification of these matters the Board initiated an investigation. External advisors were appointed to assist the Board including:

- Forensic review performed by (KPMG) Forensic team, which focused on the Chinese sales organisations (Phoslock (Beijing) Ecological Engineering Technology Co., Ltd (China) "PBEE" and (Beijing Ecosystime Environmental Science and Technology Co., Ltd (China) "BEST").
- Operational and forensic review performed by FTI, which focused on the Chinese manufacturing operations and interim management of all Chinese operations (Phoslock (Changxing) Water Solutions (China) "PWSC".

Following the KPMG forensic review the Board has identified fraudulent activities relating to areas including accounting and falsification of invoices and service contracts, improper tax reporting, potential misappropriation of funds including improper payment of bonuses, payments to third parties where the ultimate beneficiary was unclear, or which are otherwise suspect and undisclosed related party transactions.

Following the FTI forensic review the Board has identified certain payments to third parties where the ultimate beneficiary was unclear, or which are otherwise suspect. It also identified certain payments which had been incorrectly capitalised as assets where there was no evidence of future economic benefit or unfulfilled performance obligations.

As part of the investigations undertaken by the Board, total payments estimated to be $2,200,000 were identified spanning the previous 30 months from January 2020 where the ultimate beneficiary remains unclear. The results of the Board investigations suggest that these payments have a heightened risk of being associated with possible fraud and other illegal activity. These amounts have been recognised as an expense within the statement of profit or loss and other comprehensive income in each respective period, reflecting the economic loss to the Group arising from the outflow of economic benefits associated with these payments.

During the period the Group undertook a thorough review of its financial position, financial performance and related party relationships in order to identify, quantify and account for transactions connected with accounting irregularities related to the Group's Chinese operations. Consequently, the Company identified transactions within cost of goods sold, marketing expenses and administration expenses where the source documentation was either not evident or cannot be relied upon to support the economic substance of the transaction or identify the ultimate beneficiary of the transaction.

Where appropriate, the Group has reversed certain transactions in the current period and restated prior period comparatives in relation to these matters (discussed further below). However, where the Group has incurred cash outflows or an economic loss, such transactions have remained recorded as an expense to reflect the economic cost of these transactions to the Group, based on the best knowledge of the directors with respect to the nature and substance of the underlying transactions.

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

- the comparative statement of financial position as at 31 December 2019
- the opening statement of financial position of the comparative period as at 31 December 2018
- the comparative statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2019

Note 4. Restatement of comparatives (continued)

The following adjustments were made:

(1) Reversal of revenue for various sales transactions recognised within the 2019 financial year where the performance obligation associated with the sale (delivery and application of Phoslock product) had not been satisfied prior to 31 December 2019. These errors arose due to fictitious documentation created to incorrectly recognise revenue. These adjustments resulted in:
-the reversal of revenue previously recognised;
-re-recording of inventory previously recognised as cost of goods sold;
-recognition of a contract liability related to funds received in advance of work performed; and
-the reversal of accrued freight costs.

(2) Recognition of an expense and liability for the period ended 31 December 2019 to reflect payments of employee bonuses made to a third party which were ultimately paid to employees of the Group and potentially other external parties where the ultimate beneficiary is unclear and suspect. Fictitious documentation was produced in relation to this transaction.

(3) De-recognition of a prepayment held as at 31 December 2019 and recognition of an expense for the period ended 31 December 2019 resulting in payments made in connection with waste water treatment activities in China, where no services appear to have been received and where there is no future economic benefit. This payment was made to a third party where the ultimate beneficiary is unclear, or otherwise suspect.

(4) De-recognition of property, plant and equipment held as an asset as at 31 December 2019 and recognition of an expense for the period ended 31 December 2019 in connection with items which have no future economic benefit.

(5) Investments in plant and equipment purchased in September 2019 rendered ageing equipment obsolete, thus requiring the impairment of obsolete assets.

(6) Adjustments to income tax payable associated with the treatment of certain deductions and research and development activities. The Board and management have determined that a more conservative approach than that previously adopted in relation to 'High-Tech Enterprise Status' (as per the Group’s announcement on 28 October 2019), is appropriate in relation to certain elections, characterisations and other tax planning matters in this regard in relation to the Group’s Chinese sales entities (PBEE and BEST). This has the effect of adjusting the corporate tax rate in relation to historic and future profits earned by these subsidiaries from 15% to 25%. The Group has estimated the late fees associated with this adjustment recognised in the tax payable account. These adjustments may result in penalties or the Group incurring additional costs associated with rectification activities in future periods. As at the date of this report, no amount has been provided for such costs as it is not possible to measure the contingent obligation with sufficient reliability as it remains subject to the outcome of future events not wholly within the control of the Group.

(7) Reversal of Equipment subsidy for plant, property and equipment held as deferred revenue as at 31 December 2019 and recognition of subsidy at June 2019 as associated asset did not provide a future economic benefit.

(8) Adjustments to historic employee bonus expenses to the Group’s Chinese employees which have been recognised in the incorrect reporting periods.

(9) Reclassification of the nature of certain expenses with related parties based on determination of the true nature of costs incurred. Fictitious documentation and false accounting have been identified in relation to these related party transactions. This resulted in a reclassification from director, listing and professional fees to administration.

(10) Subsequent to the issuance of the half year financial report for 30 June 2020, a further adjustment was identified arising from the finalisation of analysis by the Group's tax advisors with respect to payroll tax associated with the vesting of options issued to employees, consultants and directors issued during the year ended 31 December 2019 and prior. Further details of these share based payments can be found in note 29 of this annual report.

Errors in prior period related party disclosures have been also been identified. Refer to note 24 Related Parties for details relating to transactions with related parties which were previously not disclosed.

Note 4. Restatement of comparatives (continued)

The effects of these adjustments and the impact on the Statement of Financial Position and the Statement of Profit or Loss and Other Comprehensive Income for the 31 December 2019 comparative period and 31 December 2018 opening statement of financial position were as follows:

	As at 31 December 2019				As at 31 December 2018			
	Assets increase / (decrease) $'000	Liabilities (increase) / decrease	Equity (increase) / decrease	Profit increase / (decrease)	Assets increase / (decrease)	Liabilities (increase) / decrease	Equity (increase) / decrease	Retained earnings increase / (decrease)
Adjustment 1	(2,323)	17	2,306	(2,342)	-	-	-	-
Adjustment 2	-	(499)	499	(507)	-	-	-	-
Adjustment 3	(124)	-	124	(126)	-	-	-	-
Adjustment 4	(20)	-	20	(20)	-	-	-	-
Adjustment 5	(174)	-	174	(176)	-	-	-	-
Adjustment 6	-	(374)	374	(297)	-	(83)	83	(82)
Adjustment 7	-	88	(88)	89	-	-	-	-
Adjustment 8	-	94	(94)	460	-	(363)	363	(359)
Adjustment 9	-	-	-	-	-	-	-	-
Adjustment 10	-	(862)	862	(862)	-	-	-	-
	(2,641)	(1,536)	4,177	(3,781)	-	(446)	446	(441)

The effects of these adjustments on the Statement of Profit or Loss on the comparative period 31 December 2019 were as follows:

	Year ended 31 December 2019			
	Revenue increase / (decrease $'000	Gross profit increase) / (decrease) $'000	Operating profit increase / (decrease) $'000	Profit after tax increase / (decrease) $'000
Adjustment 1	(4,779)	(2,342)	(2,342)	(2,342)
Adjustment 2	-	-	(507)	(507)
Adjustment 3	-	17	(126)	(126)
Adjustment 4	-	1	(20)	(20)
Adjustment 5	-	12	(176)	(176)
Adjustment 6	-	-	(297)	(297)
Adjustment 7	-	-	89	89
Adjustment 8	-	315	460	460
Adjustment 9	-	-	-	-
Adjustment 10	-	-	(862)	(862)
	(4,779)	(1,997)	(3,781)	(3,781)

Note 4. Restatement of comparatives (continued)

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

Consolidated statement of financial position	31-Dec-19 Reported $'000	Increase/ (decrease) $'000	31-Dec-19 Restated $'000	31-Dec-18 Reported $'000	Increase/ (decrease) $'000	31-Dec-18 Restated $'000
Assets						
Current assets						
Cash and cash equivalents	14,959	-	14,959	4,878	-	4,878
Trade and other receivables	17,149	(4,706)	12,443	17,762	-	17,762
Inventories	2,342	2,384	4,726	2,408	-	2,408
Other assets	972	(124)	848	449	-	449
Non-current assets						
Financial assets	-	-	-	26	-	26
Property, plant and equipment	1,761	(195)	1,566	1,466	-	1,466
Right-of-use assets	699	-	699	-	-	-
Intangibles	196	-	196	136	-	136
Deferred tax assets	-	-	-	358	-	358
Total assets	38,078	(2,641)	35,437	27,483	-	27,483
Liabilities						
Current liabilities						
Trade and other payables	6,477	1,249	7,726	2,115	363	2,478
Lease liabilities	352	-	352	72	-	72
Income tax	334	374	708	871	83	954
Employee benefits	549	-	549	388	-	388
Non-current liabilities						
Lease liabilities	326	-	326	-	-	-
Other liabilities	106	(87)	19	41	-	41
Total liabilities	8,144	1,536	9,680	3,487	446	3,933
Equity						
Issued capital	63,387	-	63,387	59,901	-	59,901
Reserves	562	45	607	6,006	(5)	6,001
Accumulated losses	(34,015)	(4,222)	(38,237)	(41,911)	(441)	(42,352)
Total equity	29,934	(4,177)	25,757	23,996	(446)	23,550

Note 4. Restatement of comparatives (continued)

Statement of profit or loss and other comprehensive income

	Consolidated		
	31 Dec 2019 $'000 Reported	$'000 Adjustment	31 Dec 2019 $'000 Restated
Revenue			
Sales revenue	24,536	(4,779)	19,757
Cost of sales	(11,125)	2,782	(8,343)
Other income	576	(5)	571
Interest revenue calculated using the effective interest method	-	96	96
Foreign exchange gains	2	(2)	-
Expenses			
Distribution	(159)	-	(159)
Marketing	(643)	-	(643)
Occupancy	(129)	-	(129)
Director, listing and professional fees	(2,916)	47	(2,869)
Administration	(6,388)	(1,443)	(7,831)
Impairment of assets	-	(189)	(189)
Option expenses	(30)	-	(30)
Finance costs	(73)	-	(73)
Profit before income tax expense	3,651	(3,493)	158
Income tax expense	(953)	(288)	(1,241)
Profit/(loss) after income tax benefit/(expense) for the year attributable to the owners of Phoslock Environmental Technologies Limited	2,698	(3,781)	(1,083)
Other comprehensive income			
Foreign currency translation	(276)	50	(226)
Other comprehensive income for the year, net of tax	(276)	50	(226)
Total comprehensive income for the year attributable to the owners of Phoslock Environmental Technologies Limited	2,422	(3,731)	(1,309)

	Cents Reported	Cents Adjustment	Cents Restated
Basic earnings per share	0.53	(0.74)	(0.21)
Diluted earnings per share	0.53	(0.74)	(0.21)

The restatements noted above have no impact on the Statement of Cashflow.

Note 5. Operating segments

Identification of reportable operating segments

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

Note 5. Operating segments (continued)

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

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

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

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

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

Major customers
During the year ended 31 December 2020, approximately 87% of the Group's external revenue was derived from sales to four customers (31 December 2019: approximately 36.6% of the Group's external revenue was derived from sales to the Group's largest customer).

Operating segment information

Consolidated - 31 Dec 2020	Australia/NZ $'000	Europe/UK $'000	US/Canada/ Brazil $'000	China $'000	Eliminations $'000	Total $'000
Revenue						
Sales to external customers	132	629	2,876	3,241	-	6,878
Intersegment sales	353	107	-	2,332	(2,792)	-
Total sales revenue	485	736	2,876	5,573	(2,792)	6,878
Interest revenue	47	-	-	60	(1)	106
	532	736	2,876	5,633	(2,793)	6,984
Underlying EBIT*	(7,341)	(87)	1,524	(838)	(654)	(7,396)
Interest revenue						106
Foreign exchange losses						(67)
Impairment of receivables						(10,935)
Impairment of assets						(7,381)
Share-based expense reversal						30
Finance costs						(204)
Loss before income tax benefit						(25,847)
Income tax benefit						113
Loss after income tax benefit						(25,734)
Assets						
Segment assets	79,951	815	-	8,976	(51,719)	38,023
Total assets						38,023
Liabilities						
Segment liabilities	34,647	1,555	-	6,583	(34,235)	8,550
Total liabilities						8,550

Note 5. Operating segments (continued)

Consolidated - 31 Dec 2019 Restated	Australia/NZ $'000	Europe/UK $'000	US/Canada/ Brazil $'000	China $'000	Eliminations $'000	Total $'000
Revenue						
Sales to external customers	144	737	2,665	16,211	-	19,757
Intersegment sales	1,674	52	-	1,096	(2,822)	-
Total sales revenue	1,818	789	2,665	17,307	(2,822)	19,757
Interest revenue	60	-	-	53	(17)	96
	1,878	789	2,665	17,360	(2,839)	19,853
Underlying EBIT*	(2,927)	9	285	2,921	64	352
Interest revenue						96
Foreign exchange gains						2
Impairment of assets						(189)
Option expense						(30)
Finance costs						(73)
Profit before income tax expense						158
Income tax expense						(1,241)
Loss after income tax expense						(1,083)
Assets						
Segment assets	24,201	600	-	28,034	(17,398)	35,437
Total assets						35,437
Liabilities						
Segment liabilities	2,234	1,284	-	8,677	(2,515)	9,680
Total liabilities						9,680

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

Note 6. Revenue

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

	Consolidated	
	31 Dec 2020 $'000	31 Dec 2019 Restated $'000
Geographical regions		
Australia/NZ	132	144
Europe/UK	629	737
US/Canada/Brazil	2,876	2,665
China	3,241	16,211
	6,878	19,757
Timing of revenue recognition		
Goods transferred at a point in time	6,833	19,681
Services transferred at a point in time	45	76
	6,878	19,757

Note 7. Other income

	Consolidated	
	31 Dec 2020 $'000	31 Dec 2019 Restated $'000
Net foreign exchange gain	(67)	2
Net gain on disposal of property, plant and equipment	7	-
Research and development grants	273	410
Other income	85	159
Other income	298	571

Note 8. Expenses

	Consolidated	
	31 Dec 2020 $'000	31 Dec 2019 Restated $'000
Profit/(loss) before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	169	257
Motor vehicles	-	3
Buildings right-of-use assets	512	309
Office equipment right-of-use assets	7	4
Total depreciation	688	573
Amortisation		
Patent	8	4
Total depreciation and amortisation	696	577
Impairment		
Inventories	1,921	-
Plant and equipment	1,377	189
Rights-of-use assets	4,083	-
Total impairment	7,381	189
Finance costs		
Interest and finance charges paid/payable on borrowings	1	26
Interest and finance charges paid/payable on lease liabilities	203	47
Finance costs expensed	204	73
Leases		
Short-term lease payments	342	129
Superannuation expense		
Defined contribution superannuation expense	231	176

Note 9. Income tax

	Consolidated 31 Dec 2020 $'000	Consolidated 31 Dec 2019 Restated $'000
Income tax expense/(benefit)		
Current tax	(483)	860
Deferred tax - origination and reversal of temporary differences	-	358
Adjustment recognised for prior periods	370	23
Aggregate income tax expense/(benefit)	(113)	1,241
Deferred tax included in income tax expense/(benefit) comprises:		
Decrease in deferred tax assets	-	358
Numerical reconciliation of income tax expense/(benefit) and tax at the statutory rate		
Profit/(loss) before income tax benefit/(expense)	(25,847)	158
Tax at the statutory tax rate of 27.5%	(7,108)	43
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Impairment of assets	5,037	-
Share-based payments	(8)	8
Non-taxable income	-	(68)
Non-deductible expenses	-	120
	(2,079)	103
Adjustment recognised for prior periods	370	23
Current year tax losses not recognised	1,459	652
Foreign subsidiaries	137	463
Income tax expense/(benefit)	(113)	1,241

	Consolidated 31 Dec 2020 $'000	Consolidated 31 Dec 2019 Restated $'000
Tax losses not recognised		
Unused tax losses for which no deferred tax asset has been recognised	37,657	32,351
Potential tax benefit @ 27.5%	10,356	8,897

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

Note 9. Income tax (continued)

	Consolidated 31 Dec 2020 $'000	Consolidated 31 Dec 2019 Restated $'000
Deferred tax assets not recognised		
Deferred tax assets not recognised comprises temporary differences attributable to:		
Tax losses	10,356	8,897
Accruals and provisions	441	293
Total deferred tax assets not recognised	10,797	9,190

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

	Consolidated 31 Dec 2020 $'000	Consolidated 31 Dec 2019 Restated $'000
Deferred tax asset		
Movements:		
Opening balance	-	358
Charged to profit or loss	-	(358)
Closing balance	-	-

	Consolidated 31 Dec 2020 $'000	Consolidated 31 Dec 2019 Restated $'000
Provision for income tax		
Provision for income tax	603	708

Note 10. Trade and other receivables

	Consolidated 31 Dec 2020 $'000	Consolidated 31 Dec 2019 Restated $'000
Current assets		
Trade receivables	12,976	11,995
Less: Allowance for expected credit losses	(10,350)	-
	2,626	11,995
Grant income receivable	100	448
	2,726	12,443

Allowance for expected credit losses

The Group is party to a trade receivable balance due from Beijing BHZQ Environmental Engineering Technology Co., Limited ('BHZQ') totalling $2,567,000 as at 31 December 2020 (31 Dec 2019: $2,549,000) (note 24). BHZQ is a related party of Mr Zhigang Zhang, who was a director of Phoslock Environmental Technologies Limited until his resignation on 30 September 2020.

Note 10. Trade and other receivables (continued)

As at 31 December 2020 the receivable from BHZQ was past due, with the probability of collection deemed remote, notwithstanding the Group's continued efforts to recover the amount in an orderly manner. In light of these circumstances, the Group has recognised a loss of $2,121,000 for the year ended 31 December 2020 for the amount outstanding from BHZQ at the date of this report.

As noted in note 4 and note 16, the Group has identified an amount of $177,926 within accounts payable as at 31 December 2020 ($830,645 at 31 December 2019), which relates to a contractual obligation to pay a third party connected with transactions under investigation in connection with the Group's Chinese operations. The Group is party to a contemporaneous sales contract on the Xingyun Lake Project. Due to concerns regarding the interdependency of the two contracts related to the Xingyun Lake Project, the Board concluded that the recoverability of outstanding accounts receivable in relation to this contract is uncertain, notwithstanding that the terms of the contract do not require payment until 31 March 2021. The Board therefore concluded to impair the outstanding balance recognising an allowance for expected credit losses of $6,403,000 as at 31 December 2020 in relation to this contract.

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

Consolidated	Carrying amount 31 Dec 2020 $'000	Carrying amount 31 Dec 2019 Restated $'000	Allowance for expected credit losses 31 Dec 2020 $'000	Allowance for expected credit losses 31 Dec 2019 Restated $'000
Not overdue	11,068	10,020	8,913	-
0 to 3 months overdue	264	12	-	-
3 to 6 months overdue	21	1,097	-	-
Over 6 months overdue	1,623	866	1,437	-
	12,976	11,995	10,350	-

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

	Consolidated 31 Dec 2020 $'000	Consolidated 31 Dec 2019 Restated $'000
Opening balance	-	-
Additional provisions recognised	10,935	-
Foreign exchange translation	(585)	-
Closing balance	10,350	-

Note 11. Inventories

	Consolidated 31 Dec 2020 $'000	Consolidated 31 Dec 2019 Restated $'000
Current assets		
Raw materials - at cost	1,012	1,052
Finished goods - at cost	4,319	3,674
Less: Provision for impairment	(1,372)	-
	2,947	3,674
	3,959	4,726

Note 11. Inventories (continued)

The Group concluded that its inventory holding significantly exceeded short term demand in light of the continued impacts of COVID-19 and reduced business activity in China following the Board investigation conducted during the period. While directors believe there is a limited risk of its inventory (both raw materials and finished goods) becoming obsolete or expiring, based on the factors outlined above, the Board concluded to impair all inventory that has not been sold post 31 December 2020 or is not currently associated with a committed order.

Note 12. Other

	Consolidated	
	31 Dec 2020 $'000	31 Dec 2019 Restated $'000
Current assets		
Prepayments	331	521
Other deposits	26	26
Other current assets	93	301
	450	848

Note 13. Property, plant and equipment

	Consolidated	
	31 Dec 2020 $'000	31 Dec 2019 Restated $'000
Non-current assets		
Plant and equipment - at cost	2,341	2,506
Less: Accumulated depreciation	(335)	(712)
Less: Impairment	(1,933)	(228)
	73	1,566
Motor vehicles - at cost	76	66
Less: Accumulated depreciation	(76)	(66)
	-	-
	73	1,566

Note 13. Property, plant and equipment (continued)

Reconciliations

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

Consolidated	Plant and equipment $'000	Motor vehicle $'000	Total $'000
Balance at 1 January 2019 - Restated	1,463	3	1,466
Additions	554	-	554
Exchange differences	(5)	-	(5)
Impairment of assets	(189)	-	(189)
Depreciation expense	(257)	(3)	(260)
Balance at 31 December 2019	1,566	-	1,566
Additions	31	-	31
Exchange differences	22	-	22
Impairment of assets	(1,377)	-	(1,377)
Depreciation expense	(169)	-	(169)
Balance at 31 December 2020	73	-	73

Impairment

As at 31 December 2020 the Group identified an indicator of impairment with respect to the Group's property, plant and equipment, arising from the operating loss incurred by the Group during the period. In light of this, the Group undertook an impairment assessment which resulted in the recognition of an impairment loss which reduced the carrying value of Phoslock (Changxing) Water Solutions (China) (a subsidiary of the Group) plant, property and equipment assets to $nil.

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

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

In accordance with accounting standards, an impairment loss on property, plant and equipment assets can be reversed where there is evidence that the conditions that resulted in the impairment loss are no longer present. The Group intend to reassess the position adopted at future balance dates with reference to current and future trading performance at that time.

Note 14. Right-of-use assets

	Consolidated 31 Dec 2020 $'000	Consolidated 31 Dec 2019 Restated $'000
Non-current assets		
Land and buildings - right-of-use	4,106	998
Less: Accumulated depreciation	(93)	(309)
Less: Impairment	(3,865)	-
	148	689
Office equipment - right-of-use	28	14
Less: Accumulated depreciation	(11)	(4)
	17	10
	165	699

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

The Group also leases office equipment under contract of 4 years

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

Consolidated	Buildings right-of-use $'000	Office equipment right-of-use $'000	Total $'000
Balance at 1 January 2019	820	14	834
Additions	178	-	178
Depreciation expense	(309)	(4)	(313)
Balance at 31 December 2019	689	10	699
Additions	4,068	15	4,083
Exchange differences	(14)	(1)	(15)
Impairment of assets	(4,083)	-	(4,083)
Depreciation expense	(512)	(7)	(519)
Balance at 31 December 2020	148	17	165

Impairment
As at 31 December 2020 the Group identified an indicator of impairment with respect to the its China Operations right-of-use assets, arising from the operating loss incurred by the Group during the period. In light of this, the Group undertook an impairment test which resulted in the recognition of an impairment loss which reduced the carrying value of the right-of-use asset to $nil.

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

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

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

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

For other AASB 16 and lease related disclosures, refer to the following:
- Refer note 8 for details of depreciation on right-of-use assets, interest on lease liabilities and other lease payments;
- Refer note 17 for lease liabilities at 31 December 2020;
- Refer note 21 for undiscounted future lease commitments; and
- Refer consolidated statement of cash flows for repayment of lease liabilities

Note 15. Intangibles

	Consolidated	
	31 Dec 2020 $'000	31 Dec 2019 Restated $'000
Non-current assets		
Intellectual property - at cost	218	202
Less: Accumulated amortisation	(9)	(6)
	209	196

Reconciliations

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

Consolidated	Patents $'000
Balance at 1 January 2019	136
Additions	64
Amortisation expense	(4)
Balance at 31 December 2019	196
Additions	21
Amortisation expense	(8)
Balance at 31 December 2020	209

Note 16. Trade and other payables

	Consolidated	
	31 Dec 2020 $'000	31 Dec 2019 Restated $'000
Current liabilities		
Trade payables	2,285	5,992
Accrued expenses	553	505
Other payables	977	1,229
	3,815	7,726

Refer to note 21 for further information on financial instruments.

Note 16. Trade and other payables (continued)

The Group identified an amount of $830,645 within trade payables as at 31 December 2019, which relates to a contractual obligation to pay a third party connected with transactions under investigation in connection within the Group's Chinese operations. As the obligation is contractual in nature, a balance of $177,926 continues to be held as at 31 December 2020 and will continue to be held until such time that the Board completes its investigation activities and/or the obligation can be legally extinguished. The Board will not make any further payment until its investigation activities have been completed.

Note 17. Lease liabilities

	Consolidated	
	31 Dec 2020 $'000	31 Dec 2019 Restated $'000
Current liabilities		
Lease liability	544	352
Non-current liabilities		
Lease liability	3,292	326
	3,836	678

Refer to note 21 for further information on financial instruments.

Note 18. Issued capital

	Consolidated			
	31 Dec 2020 Shares	31 Dec 2019 Shares	31 Dec 2020 $'000	31 Dec 2019 $'000
Ordinary shares - fully paid	625,000,509	564,991,694	92,459	63,387

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 January 2019	528,691,581		59,901
Conversion of options	18 January 2019	12,200,000	$0.11	1,281
	19 February 2019	1,150,000	$0.11	121
	25 May 2019	5,200,000	$0.11	546
	11 June 2019	4,100,000	$0.11	430
	8 July 2019	650,000	$0.11	68
	12 August 2019	250,000	$0.11	26
	19 August 2019	500,000	$0.11	52
	12 September 2019	7,000,000	$0.11	735
	23 September 2019	2,800,113	$0.00	-
	11 November 2019	1,900,000	$0.11	200
	11 December 2019	550,000	$0.11	58
Transaction costs		-	$0.00	(31)
Balance	31 December 2019	564,991,694		63,387
Issuance of shares institutional placement	17 April 2020	24,000,000	$0.50	12,000
Issuance of shares share purchase plan	7 May 2020	30,308,815	$0.50	15,154
Issuance of shares to key management personnel	3 June 2020	5,700,000	$0.50	2,850
Transaction costs		-	$0.00	(932)
Balance	31 December 2020	625,000,509		92,459

Note 18. Issued capital (continued)

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

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

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

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

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

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

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

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

The capital risk management policy remains unchanged from the 31 December 2019 Annual Report.

Note 19. Reserves

	Consolidated	
	31 Dec 2020 $'000	31 Dec 2019 Restated $'000
Foreign currency reserve	985	577
Options reserve	-	30
	985	607

Foreign currency reserve
The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

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

Note 19. Reserves (continued)

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

Consolidated	Foreign currency $'000	Option $'000	Total $'000
Balance at 1 January 2019	803	5,198	6,001
Foreign currency translation	(226)	-	(226)
Option expense	-	30	30
Option transfer to accumulated losses	-	(5,198)	(5,198)
Balance at 31 December 2019	577	30	607
Foreign currency translation	408	-	408
Option expense reversals	-	(30)	(30)
Balance at 31 December 2020	985	-	985

Note 20. Dividends

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

Note 21. Financial instruments

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

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

Market risk

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

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

	Assets		Liabilities	
Consolidated	31 Dec 2020 $'000	31 Dec 2019 Restated $'000	31 Dec 2020 $'000	31 Dec 2019 Restated $'000
US dollars	1,652	428	266	46
Euros	-	-	1	9
Canadian dollars	-	-	54	-
Singapore dollars	-	-	-	10
	1,652	428	321	65

Note 21. Financial instruments (continued)

The Group had net assets denominated in foreign currencies of $1,331,000 (assets of $1,652,000 less liabilities of $321,000) as at 31 December 2020 (31 December 2019: $363,000 (assets of $428,000 less liabilities of $65,000)). Based on this exposure, had the Australian dollars weakened by 1%/strengthened by 1% (31 December 2019: weakened by 1%/strengthened by 1%) against these foreign currencies with all other variables held constant, the Group's profit before tax for the year would have been $13,000 lower/$13,000 higher (31 December 2019: $4,000 lower/$4,000 higher) and equity would have been $9,000 lower/$9,000 higher (31 December 2019: $3,000 lower/$3,000 higher). The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 12 months each year and the spot rate at each reporting date. The actual foreign exchange loss for the year ended 31 December 2020 was $67,000 (31 December 2019: gain of $2,000).

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

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

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

Consolidated	31 Dec 2020 Weighted average interest rate %	31 Dec 2020 Balance $'000	31 Dec 2019 Restated Weighted average interest rate %	31 Dec 2019 Restated Balance $'000
Cash and cash equivalents	0.33%	30,441	0.40%	14,959
Other deposits	1.40%	26	1.40%	26
Net exposure to cash flow interest rate risk		30,467		14,985

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

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

Consolidated - 31 Dec 2019 Restated	Basis points increase: Basis points change	Basis points increase: Effect on profit before tax	Basis points increase: Pre-tax effect on equity	Basis points decrease: Basis points change	Basis points decrease: Effect on profit before tax	Basis points decrease: Pre-tax effect on equity
Net exposure to cashflow interest rate risk	100	150	150	100	(150)	(150)

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

Note 21. Financial instruments (continued)

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

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

Liquidity risk

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

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

Remaining contractual maturities

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

Consolidated - 31 Dec 2020	1 year or less $'000	Between 1 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives				
Non-interest bearing				
Trade payables	2,285	-	-	2,285
Other payables	977	-	-	977
Interest-bearing - variable				
Lease liability	770	2,263	1,870	4,903
Total non-derivatives	4,032	2,263	1,870	8,165

Consolidated - 31 Dec 2019 Restated	1 year or less $'000	Between 1 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives				
Non-interest bearing				
Trade payables	5,992	-	-	5,992
Other payables	1,229	-	-	1,229
Interest-bearing - variable				
Lease liability	387	375	-	762
Total non-derivatives	7,608	375	-	7,983

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

Fair value of financial instruments

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

Note 22. Remuneration of auditors

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

	Consolidated	
	31 Dec 2020	31 Dec 2019
	$	$
Audit services - KPMG Sydney		
Audit or review of the financial statements	457,535	124,250
Other services - KPMG Sydney		
Taxation services	24,033	30,000
Forensic accounting services	580,054	-
	604,087	30,000
	1,061,622	154,250
Audit services - KPMG China		
Audit or review of the financial statements	52,249	105,429
Other services - KPMG China		
Taxation services	90,259	15,932
	142,508	121,361

Note 23. Contingent liabilities

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

As set out in note 4, the Group identified certain adjustments associated with historical income tax deductions, research and development activities and withholding tax matters which resulted in the restatement of prior period comparatives. These adjustments may result in penalties or interest in future periods. As at the date of this report, other than items detailed in this interim report, no amount has been provided for such costs as it is not possible to measure the contingent obligation with sufficient reliability as it remains subject to the outcome of future events not wholly within the control of the Group. These matters may require amendments to previously lodged income tax returns and therefore create an uncertain tax position in relation to the tax authorities' views in relation to these corrections. In addition, these adjustments may result in penalties or interest in future periods.

Note 24. Related party transactions

Parent entity
Phoslock Environmental Technologies Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 26.

Transactions with related parties not disclosed previously
Disclosures relating to key management personnel are set out in note 25 and the remuneration report included in the directors' report.

Note 24. Related party transactions (continued)

During the period the Group identified that members of Key Management Personnel (Mr Zhigang Zhang, Mr Ningping Ma and Mr Tingshan Liu) had relationships with the following entities that rendered them to be related parties of the Group, which had not been previously disclosed:

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

The following are the transactions with the above related entities:

Transactions	Entity	Year ended 31 Dec 2020 $	Year ended 31 Dec 2019 Restated $
Sales of zeolite and volcanic rocks (Xinfeng Wetland PPP project)	BHZQ	-	1,157,481
Sales of bacteria agents (Xinfeng Wetland PPP project)	BHZQ	-	127,471
Sales of Phoslock and bacteria agents (Xinfeng River Ecological Remediation)	BHZQ	807,104	1,392,387
Sales of aeration machines (Xinfeng River project)	BHZQ	185,696	-
Purchase of consulting service (Car rental service)	BKHETD	-	12,546
Purchase of consulting service (Car rental service)	BHEET	9,512	9,409
Purchase of consulting service (Venue hire service)	BHEET	11,890	25,484
Service fee of bacteria agent expansion	BHEET	-	208,460

Note 24. Related party transactions (continued)

Receivable from and payable to related parties not disclosed previously
The Group had the following receivable from and payable to related parties which were previously not disclosed.

	31 December 2020		31 December 2019	
	Trade and other receivables $	Trade and other payables $	Trade and other receivables $	Trade and other payables $
BHEET	1,591	202,566	1,637	208,460
BHZQ*	-	-	2,548,932	-
BKHETD	-	-	-	-
	1,591	202,566	2,550,569	208,460

* Represents value of receivables after provision for expected credit loss.

As part of the Group's review of its financial position, certain transactions were identified with the above noted parties that involved false accounting, falsification of invoices and service contracts. Transactions of this nature that were initially recorded and reversed within the year to 31 December 2020 are not presented in the table above as they are no longer reflected within the financial statements.

Likewise, transactions of this nature that were recorded in prior periods and were corrected as part of the restatement presented in note 4 are not presented in the table above.

As at 31 December 2020 the receivable from BHZQ was past due, with the probability of collection deemed remote, notwithstanding the Group's continued efforts to recover the amount in an orderly manner. In light of these circumstances, the Group has recognised a loss of $2,121,000 for the year ended 31 December 2020 for the amount outstanding from BHZQ at the date of this report.

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

	Consolidated	
	31 Dec 2020 $	31 Dec 2019 Restated $
Payment for services provided by relatives of key management personnel:		
Margaret Schuitema - part-time employment**	91,509	128,615
Martin Schuitema - part-time employment**	-	12,223
Yolanda Winks - part-time employment***	20,001	45,946
Venus Ho - part-time employment****	11,253	33,367
Contribution to self-managed superannuation funds managed by related parties of Robert Schuitema, Laurence Freedman and Brenda Shanahan	-	69,357
Payment for services provided by companies related to key management personnel:		
Payment for rent - Link Traders (Aus) Pty Ltd*	138,000	118,604
Payment for investor relations fees - Serenity Holdings Pty Ltd*	245,238	140,991

* related party of Laurence Freedman
** related party of Robert Schuitema
*** related party of Andrew Winks
**** related party of Chris Hui

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

Note 24. Related party transactions (continued)

Loans to/from related parties

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

Terms and conditions

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

Board investigations

During the course of the Board Investigation, it was identified that a number of transactions with related parties were not conducted on arm's-length terms and were not supported by reliable source records and resulted in payments to related parties where the ultimate beneficiaries were unclear. In light of these circumstances, the Board undertook a review of relevant transactions and, where applicable, have recorded and disclosed transactions in the current period in a manner which reflects their economic impact on the Group. Likewise, comparative information has been restated to reflect transactions of this nature that occurred in prior periods.

While the economic substance of these transactions (i.e. the purpose of the transaction and ultimate beneficiaries) remains under investigation as part of the Board's ongoing investigation activities, the directors believe the financial statements accurately reflect the financial impact of the transactions on the Group with reference to the best available information regarding contractual terms and conditions with respect to amounts that remain receivable or payable as at 31 December 2020 (i.e. where cash flows have not occurred).

In response to these matters, the Group has implemented the following changes with respect to the identification and approval of related party transactions:

- Supplied training to all relevant directors and senior executives of relevant legislation and listing rules related to notifiable interests, material personal interests and related party declarations;
- Overhauled monthly board reporting to include explicit director declarations and disclosure of interests requirements; and
- Required all directors to acknowledge and sign specific directors' notifiable interests, material personal interests and related party declarations.

Note 25. Key management personnel disclosures

Compensation

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

	Consolidated	
	31 Dec 2020 $	31 Dec 2019 Restated $
Short-term employee benefits	2,994,379	1,650,165
Post-employment benefits	224,755	159,617
Long-term benefits	75,624	78,472
Share-based payments	(30,392)	30,392
	3,264,366	1,918,646

As detailed in note 4, the Group made bonus payments relating to the 2019 financial year of $507,000 to a third party, the ultimate beneficiary of which remains unclear and may have included employees and directors of the Group's Chinese subsidiaries identified as Key Management Personnel. This amount was not included in the prior year Key Management Personnel Disclosure as the payment was incorrectly recorded in 2020 through fictitious documentation characterising it as prepaid labour costs. As the records associated with these bonus payments are conflicting and not reliable, the $507,000 has not been included in the Key Management Personnel disclosure above for 2019 as the recipients remain unclear. The expense has however been recognised in the restated financial report as disclosed in note 4.

Note 26. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership interest 31 Dec 2020 %	Ownership interest 31 Dec 2019 Restated %
Phoslock Europe GmbH	Switzerland	100%	100%
Phoslock Technologies Pty Ltd	Australia	100%	100%
Phoslock Pty Ltd	Australia	100%	100%
Phoslock International Pty Ltd	Australia	100%	100%
Phoslock Belgium BV	Belgium	100%	100%
Phoslock Water Solutions (UK) Ltd	United Kingdom	100%	100%
Phoslock (Shanghai) Water Solutions Ltd	China	100%	100%
Phoslock (Changxing) Water Solutions Ltd	China	100%	100%
Phoslock (Beijing) Ecological Engineering Technology Co., Ltd	China	100%	100%
Beijing Ecosystime Environmental Science and Technology Co., Ltd	China	100%	100%
Zhejiang Phoslock Environmental Technologies Ltd	China	100%	-
Phoslock Canada Inc.	Canada	100%	-

Note 27. Cash flow information

Reconciliation of loss after income tax to net cash from/(used in) operating activities

	Consolidated 31 Dec 2020 $'000	Consolidated 31 Dec 2019 Restated $'000
Loss after income tax benefit/(expense) for the year	(25,734)	(1,083)
Adjustments for:		
Depreciation and amortisation	696	577
Share-based payments	(30)	30
Impairment of receivables	10,935	-
Impairment of assets	7,381	189
Other non-cash items	(674)	(201)
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(633)	5,319
Increase in inventories	(605)	(2,318)
Decrease in deferred tax assets	-	358
Decrease/(increase) in prepayments	398	(375)
Increase/(decrease) in trade and other payables	(3,911)	5,248
Decrease in provision for income tax	(105)	(246)
Increase/(decrease) in employee benefits	(253)	160
Decrease in other operating liabilities	(19)	(93)
Net cash from/(used in) operating activities	(12,554)	7,565

Note 27. Cash flow information (continued)

Changes in liabilities arising from financing activities

Consolidated	Lease liabilities $'000
Balance at 1 January 2019	72
Net cash used in financing activities	(348)
Acquisition of leases	178
Other changes	776
Balance at 31 December 2019	678
Net cash used in financing activities	(1,113)
Acquisition of leases	4,068
Finance costs	203
Balance at 31 December 2020	3,836

Note 28. Earnings per share

	Consolidated 31 Dec 2020 $'000	Consolidated 31 Dec 2019 Restated $'000
Loss after income tax attributable to the owners of Phoslock Environmental Technologies Limited	(25,734)	(1,083)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	605,068,761	508,902,353
Weighted average number of ordinary shares used in calculating diluted earnings per share	605,068,761	508,902,353
	Cents	**Cents**
Basic earnings per share	(4.25)	(0.21)
Diluted earnings per share	(4.25)	(0.21)

28,000,000 (2019: 28,000,000) options were excluded from the weighted average number of ordinary shares used in calculating diluted earnings per share as they were anti-dilutive.

Note 29. Share-based payments

The following share option plans are outstanding as of 31 December 2020. The Group derecognised $30,000 share-based payment expense as management believe that the vesting conditions will not be achieved.

Share option plan	Grant date	Number of options	Exercise price	Vesting conditions	SBP expense
Options granted to CEO	27 Nov 2019	1,500,000	$1.25	-PET Group record sales more than $120,000,000 for the period from 1 January 2020 to 31 December 2021 -Remain employed beyond the vesting date.	$30,000 reversals
Options granted to CEO	27 Nov 2019	1,500,000	$1.35	-PET Group record sales more than $200,000,000 for the period from 1 January 2020 to 31 December 2022 -Remain employed beyond the vesting date.	$nil
Options to PET Chinese employees*	23 Mar 2020	20,000,000	$1.00	-From 1 January 2020 to 31 December 2020 PET China record sales of: (a) more than $40,000,000 (entitled to 3,000,000 options) (b) more than $50,000,000 but less than or equal to $60,000,000 (additional 4,000,000 options) (c) more than $60,000,000 but less than or equal to $70,000,000 (additional 3,000,000 options) (d) more than $70,000,000 but less than or equal to $80,000,000 (additional 3,000,000 options) (e) more than $80,000,000 (additional 7,000,000 options) -Remain employed beyond the vesting date	$nil
Options to PET International employees**	24 Mar 2020 25 Mar 2020 9 Apr 2020	4,150,000 800,000 50,000	$1.00	-From 1 January 2020 to 31 December 2020 PET International record sales of: (a) more than $15,000,000 but less than or equal to $20,000,000 (entitled to 1,500,000 options) (b) more than $20,000,000 but less than or equal to $25,000,000 (additional 1,500,000 options) (c) more than $25,000,000 (additional 2,000,000 options) -Remain employed beyond the vesting date	$nil

* As part of the Board investigations, it was identified that the process for allocating the options lacked governance oversight. These options have not vested and have been cancelled subsequent to 31 December 2020.

** The performance hurdle has not been achieved and as a consequence have been cancelled subsequent to 31 December 2020.

Note 29. Share-based payments (continued)

In June 2017, a total of 65 million share options were approved for issue by the Board and Company shareholders. Of this balance:

- 20 million share options were approved to be issued to employees and directors of Phoslock (Beijing) Ecological Engineering Technology Co Ltd ('PBEE'), a wholly owned subsidiary of the Company. As part of the forensic investigation, it was identified that the process for allocating the options lacked governance oversight and the process for measuring the performance of vesting conditions was unclear and subject to judgement. Of the options issued, 10.4 million were ultimately exercised by parties other than PBEE employees and directors, including employees of Beijing BHZQ Environmental Engineering Technology Co., Limited ('BHZQ') (a previously undisclosed director related party of Mr Zhigang Zhang, and one of the Group's largest customers), in contravention of the conditions of the share options;
- 30 million share options were approved to be issued to China Environmental Corporation Australia Pty Ltd ('CEC') (a previously undisclosed director related party of Mr Zhigang Zhang and Mr Ningping Ma). The options were allocated to shareholders of CEC, the majority of whom also worked for or had an indirect shareholding in BHZQ (a previously undisclosed director related party of Mr Zhigang Zhang, and one of the Group's largest customers). The options were subject to the same performance conditions as the 20 million options discussed above, however there was no service condition attached. As part of the forensic investigation, it was identified that the process for allocating the options lacked governance oversight and the process for measuring the performance of vesting conditions was unclear and subject to judgement; and
- the remaining 15 million options were appropriately issued to employees of the Group and subject to the same vesting conditions as the 20 million options discussed above. As part of the forensic investigation, it was identified that the process for measuring the performance of vesting conditions was unclear and subject to judgement.

The accounting fair value for the 65,000,000 options of $3,458,391 was expensed by the Group over the period from 16 July 2017 to 30 June 2019. 100% of the options were exercised between 27 November 2018 and 12 September 2019. The Group has no recourse in relation to options that vest which have been exercised.

In December 2019, an additional 20,000,000 share options were approved for issue by the Board to PET Chinese employees and 5,000,000 to PET International employees. As part of the Board investigation, it was identified that the process for allocating the options lacked governance oversight. As a result, these options have not been allocated to individuals in the table above. These options will not vest as the performance conditions have not been met and therefore have been cancelled.

In response to these circumstances and events the chairman of the Nomination and Renumeration Committee has commissioned a full review of the long term incentive schemes of the Company to conform with best practise and to be better aligned with shareholders' interests.

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

	Number of options 31 Dec 2020	Weighted average exercise price 31 Dec 2020	Number of options 31 Dec 2019 Restated	Weighted average exercise price 31 Dec 2019 Restated
Outstanding at the beginning of the financial year	28,000,000	$1.03	27,500,000	$0.11
Granted	-	$0.00	38,000,000	$1.03
Exercised	-	$0.00	(27,500,000)	$0.11
Vesting conditions not met/lapsed*	-	$1.00	(10,000,000)	$0.00
Outstanding at the end of the financial year	28,000,000	$1.03	28,000,000	$1.03
Exercisable at the end of the financial year	-	$0.00	-	$0.00

* employees ceasing employment during the period

Note 29. Share-based payments (continued)

Subsequent to 31 December 2020, the options to PET Chinese employees and PET International employees totalling 25,000,000 options will not vest as the performance conditions have not been met and therefore have been cancelled. Outstanding options as at the date of financial statements relates to the CEO options totalling to 3,000,000 options.

Note 30. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	31 Dec 2020 $'000	31 Dec 2019 Restated $'000
Loss after income tax	(6,155)	(2,227)
Total comprehensive income	(6,155)	(2,227)

Statement of financial position

	Parent	
	31 Dec 2020 $'000	31 Dec 2019 Restated $'000
Total current assets	3,131	2,799
Total assets	51,578	28,691
Total current liabilities	-	-
Total liabilities	-	-
Equity		
Issued capital	92,459	63,387
Options reserve	-	30
Accumulated losses	(40,881)	(34,726)
Total equity	51,578	28,691

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries
The parent entity had no guarantees in relation to the debts of its subsidiaries as at 31 December 2020 and 31 December 2019.

Contingent liabilities
Except as disclosed in note 23, the parent entity had no contingent liabilities as at 31 December 2020 and 31 December 2019.

Capital commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment as at 31 December 2020 and 31 December 2019.

Note 30. Parent entity information (continued)

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 31. Events after the reporting period

Since 31 December 2020, the Group's operations have continued to be impacted by the COVID-19 pandemic and related Government actions imposed in key markets to slow the spread of the virus. As the global outbreak of COVID-19 continues to progress and evolve, it is extremely challenging to predict the full extent and duration of its impact on the Group's business activities.

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

On 11 January 2021 the Group signed a lease modification with its landlord in relation to the PETZ ('Zheijang Phoslock Environmental Technologies Ltd (China)') factory which reduced the lease term, square footage and overall cost. This is part of the ongoing effort to right size the business as a result of the investigation findings and current trading conditions.

On 11 March 2021, the Company announced the retirement of Laurence Freedman as Non-Executive Chairman of the Group at the conclusion of the Annual General Meeting in May 2021. The Company also announced the appointment of two Non-Executive Directors, David Krasnostein AM and Bob Prosser, effective 5 April 2021.

No other matter or circumstance has arisen since 31 December 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;

- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the financial year ended on that date; and

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

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

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

On behalf of the directors

Lachlan McKinnon
Managing Director

31 March 2021

Independent Auditor's Report

To the shareholders of Phoslock Environmental Technologies Limited

Report on the audit of the Financial Report

Disclaimer of Opinion

We were engaged to audit the ***Financial Report*** of Phoslock Environmental Technologies Limited (the Company).

We do not express an opinion on the accompanying Financial Report of the Group.

Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Financial Report.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 31 December 2020
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

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

Basis for Disclaimer of Opinion

Note 4 Restatement of comparatives and Note 29 Share-based payments describe the matters related to the Board Investigations undertaken regarding the identification of activities such as falsification of invoices and service contracts, improper tax reporting, potential misappropriation of funds including improper payment of bonuses, payments to third parties where the ultimate beneficiary was unclear, or which are otherwise suspect, undisclosed related party transactions, certain payments which had been incorrectly capitalised as assets where there was no evidence of future economic benefits as these impairment risks were previously falsely characterised, and transactions with unfulfilled performance obligations related to the Group's Chinese operations. Further, Note 24 Related party transactions observes certain transactions with related parties involved false accounting, falsification of invoices and service contracts, and a number of transactions that were not conducted on arms-length terms and were not supported by reliable source records which resulted in payments to related parties where the ultimate beneficiaries were unclear.

Note 4 describes the Restatement of comparatives arising from these Board Investigations, and Note 2 references matters of context to the Group's assessment of continuing to be a going concern, both of which we consider to be fundamentally important to users of the financial report.

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From accessing the Board Investigations, we note concerns are raised regarding a wide variety of source records, including contracts of sale, supply contracts, labour and compensation arrangements, inventory cost models, employee bonus calculations, and business expenditures. In performing our procedures on the underlying records as they relate to amounts recorded in the financial report, including restated amounts, we identified concerns regarding the reliability of these sources, as audit evidence, incremental to those disclosed by the Group in Notes 4, 24 and 29. Our concerns include source records with indicators they may be fictitious records, non-arms-length transactions, transactions and contracts not representing their actual economic substance, falsification of records, explanations or representations in particular regarding expected use of assets/future economic benefits, fulfilment of contract obligations and identification of related party transactions, and concealed illegal activity. The Group has been unable to provide information to alleviate our concerns, either by way of reconstructions of accounting records, clear documentation of complete transaction trails, or alternative confirmation of the economic substance of underlying transactions.

These concerns, combined with the nature and volume of source records, and the quantum they represent to the financial report, including restated amounts, have material and pervasive negative impacts on our ability to gather persuasive audit evidence to form an opinion. Further details of the reasons for our inability to gather sufficient appropriate evidence are provided below, as they relate to certain significant financial report line items.

Income statement - Sales revenue

Amounts are recognised as Sales revenue in the financial report, including those restated for the 31 December 2019 year end. For a significant number of these transactions and contracts tested, particularly those with previously undisclosed related parties, we identified concerns regarding the reliability of these sources, such as indicators they may be non-arms-length transactions, transactions and contracts not representing their actual economic substance, and fictitious documentation. To determine the appropriateness of recording the amounts as Sales revenue, the accounting standards require evaluation of the economic substance of the transaction, in particular whether the characteristics of revenue are met. In the absence of the Group providing information to alleviate our concerns we consider to have not gathered sufficient appropriate audit evidence regarding the characterisation of these transactions as true and fair Sales revenue.

Income statement – Cost of sales

Amounts are recognised as Cost of sales in the financial report, including those restated for the 31 December 2019 year end. For a significant number of these transactions tested, including supplier contracts and labour arrangements, we identified concerns regarding the reliability of these sources, particularly those with previously undisclosed related parties, such as indicators they may be non-arms-length transactions, transactions and contracts not representing their actual economic substance, fictitious documentation, payments to third parties where the ultimate beneficiary was unclear or otherwise suspect, or contain concealed illegal activity. In addition, we note that the Group has claimed value added tax credits associated with these payments in their tax filings and has not recognised a liability for potential amounts owing to tax authorities in the event that these payments are accurately characterised in tax filings. In the absence of the Group providing information to alleviate our concerns we consider to have not gathered sufficient appropriate audit evidence regarding the characterisation of these transactions as true and fair costs of sales.

In addition, during our testing of a sample of transactions recorded as cost of sales we identified concerns for a significant number regarding the reliability of the underlying source records, such as indicators they may contain concealed illegal activity. We note the Group has not disclosed the total amount or nature of this issue in the current year or restated year, which we consider to be a material omission of information relevant to users of the financial report. It is impracticable for us to determine this disclosure. In the absence of the Group providing information to alleviate our concerns we consider to have not gathered sufficient appropriate audit evidence regarding the final quantum and characterisation of these transactions as true and fair cost of sales expenses.

Income statement – Marketing expense and Administration expense

Amounts are recognised as Marketing and Administration expenses in the financial report, including those restated for the 31 December 2019 year ended. Our testing of a sample of these transactions identified marketing and administration expenses recorded in the 31 December 2020 year which should have been recorded in the 31 December 2019 year ended. The quantum and scale of the misstatement identified from our sample was sufficiently high that estimating an expected misstatement across all marketing and administration expenses, using the error rate from the sample, could not be determined without the Group performing a full reconstruction of the contents of their marketing and administration expense records. In the absence of the Group providing information by way of reconstruction of accounting records to alleviate our concerns, we consider to have not gathered sufficient appropriate audit evidence regarding the accuracy of marketing and administration expenses.

In addition, during our testing of a sample of transactions recorded as marketing and administration expenses, we identified concerns for a significant number regarding the reliability of the underlying source records, such as indicators they may contain concealed illegal activity. We note the Group has not disclosed the total amount or nature of this issue in the current year or restated year, which we consider to be a material omission of information relevant to users of the financial report. It is impracticable for us to determine this disclosure. In the absence of the Group providing information to alleviate our concerns we consider to have not gathered sufficient appropriate audit evidence regarding the final quantum and characterisation of these transactions as true and fair marketing and administration expenses.

Amounts are recognised as Administration expenses in the financial report, including those restated for the 31 December 2019 year ended narrated in the records as short term employee incentives. Further, an amount of $507,000 is recognised as Administration expenses in the financial report for the restated 31 December 2019 year end narrated in the records as related to employee bonuses. This amount was previously incorrectly narrated in the records as prepaid labour costs (Note 4 Adjustment 2). This amount is referenced in Note 25 Key management personnel disclosures and on page 18 of the Remuneration Report. For a significant number of these transactions narrated as short term employee incentives and employee bonuses, we identified concerns regarding the reliability of the underlying source records, such as indicators that payments have been made not to employees but to third parties where the ultimate beneficiary was unclear, or which are otherwise suspect. In addition, we note that the Group has not recognised a liability for potential employee taxes owing to tax authorities in the event that the employee bonus payments are accurately characterised in tax filings. In the absence of the Group providing information to alleviate our concerns we consider to have not gathered sufficient appropriate audit evidence regarding the characterisation of these transactions as true and fair Administration expenses, and/or key management personnel expenses.

Amounts are recognised as Administration expenses in the financial report, including those restated for the 31 December 2019 year end. For a significant number of these transactions, particularly those with previously undisclosed related parties, we identified concerns regarding the reliability of the underlying source records, such as indicators they may be non-arms-length transactions, transactions and contracts not representing their actual economic substance, fictitious records, or expenses for matters unrelated to core business operations. In the absence of the Group providing information to alleviate our concerns we consider to have not gathered sufficient appropriate audit evidence regarding the characterisation of these transactions as true and fair administration expenses.

Income statement – Director, listing and professional fees expense

Amounts are recognised as Director, listing and professional fee expenses in the financial report, including those restated for the 31 December 2019 year end. For a number of these transactions we identified concerns regarding the reliability of the underlying source records, such as indicators they may be payments to third parties where the ultimate beneficiary was unclear, or which are otherwise suspect or contain concealed illegal activity. In the absence of the Group providing information to alleviate our concerns we consider to have not gathered sufficient appropriate audit evidence regarding the characterisation of these transactions as true and fair Director, listing and professional fees.

Income statement – allowance for expected credit loss (Impairment of Trade Receivable) – Director related entity (BHZQ) – Note 10

Amounts are recognised in relation to purchase ($47,414) and sale ($185,696) of Aeration machines in the financial report, impacting the categories: Sale revenue for the contract for sale with the related party BHZQ (Note 24 *Related Parties*), and associated Accounts Receivable, and Costs of sales for the purchase contract, and the associated cash outflow payment. The Group has recorded an allowance for expected credit loss of $185,696 in relation to this transaction, deeming the collection of the receivable as remote. In relation to this previously undisclosed related party, we identified concerns regarding the reliability of the sources of evidence, such as indicators they may be non-arms-length transactions, transactions and contracts not representing the core business of the Group and therefore their actual economic substance. To determine the appropriateness of recording the amounts as Sale revenue, and consequential receivables and allowance accounting, the accounting standards require evaluation of the economic substance of the transaction, in particular whether the characteristics of revenue are met. In the absence of the Group providing information to alleviate our concerns we consider to have not gathered sufficient appropriate audit evidence regarding the characterisation of these transactions as sales revenue, and therefore the consequential receivables and allowance accounting.

Statement of financial position - Inventory – Note 11

Amounts are recognised as Inventory in the financial report, including those restated for the 31 December 2019 year end. For a number of these transactions recorded within the inventory costing we identified concerns regarding the reliability of the underlying source records, such as indicators they may contain concealed illegal activity. In the absence of the Group providing information to alleviate our concerns we consider to have not gathered sufficient appropriate audit evidence regarding the characterisation of these transactions as relating to the costing of inventory and therefore the accuracy of the inventory recognised as at those dates.

Statement of financial position – Trade and other payables – Note 16

An amount of $208,460 is recognised as Trade and other payables as at 31 December 2019, reduced to $202,566 by 31 December 2020, narrated in the records as a related party expense transaction for service fees of bacteria agent expansion (as disclosed in Note 24 Related parties) and contained in the Cost of sales expense item. For these amounts we identified concerns regarding the reliability of source records, such as fictitious records, indicators the transaction may be a non-arms-length transaction, and contracts not representing their actual economic substance with the related party. In the absence of the Group providing information to alleviate our concerns we consider to have not gathered sufficient appropriate audit evidence regarding the characterisation of these transactions as related to valid and legal liabilities and therefore the accuracy of the trade and other payables balance amounts, associated costs recorded in Cost of sales expenses, and related party disclosures.

In addition, an amount of $830,645 is recognised as Trade and other payables at 31 December 2019, reduced to $177,926 by 31 December 2020. Note 4 and Note 16 describes this amount as a contractual obligation to pay a third party connected with transactions under investigation in connection with the Group's Chinese operations. For this contract, we identified concerns regarding the reliability of source records, such as indicators they may contain concealed illegal activity. In the absence of the Group providing information to alleviate our concerns we consider to have not gathered sufficient appropriate audit evidence regarding the characterisation of the transactions as relating to valid and legal liabilities and therefore the accuracy of the trade and other payables balance and associated historical expense amounts.

We conducted our audit in accordance with *Australian Auditing Standards*. We were unable to satisfy ourselves by alternative means in relation to the above matters. Therefore in aggregate we have not been able to obtain sufficient appropriate evidence.

As a result of all these matters, we are unable to form an opinion whether firstly, the Directors Declaration statement regarding the financial report giving a true and fair view of the financial position and its performance complying with the Australian Accounting Standards and *Corporations Act 2001* is appropriate, and secondly, determine whether the possible effects of undetected misstatements require adjustment in respect of recorded amounts in the financial report. We note the possible effects may be across various items making up the statement of profit or loss and other comprehensive income, the statement of financial position, the statement of cash flows, and the statement of changes in equity in the Financial Report.

Given the material and pervasive impacts of this to the Financial Report as a whole, we are therefore unable to form an opinion on the Financial Report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

Auditor's responsibilities for the audit of the Financial Report

Our responsibility is to conduct an audit of the Group's Financial Report in accordance with *Australian Auditing Standards* and to issue an auditor's report. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Financial Report.

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

Report on the Remuneration Report

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the *Basis for Qualified Opinion* section of our report below, the Remuneration Report of Phoslock Environmental Technologies Limited for the year ended 31 December 2020, complies with Section 300A of the Corporations Act 2001.

Basis for Qualified Opinion

Short-term benefits – cash bonus 2019

The Remuneration Report references Note 4 regarding the Board Investigations undertaken including that the Group made bonus payments in relation to the year ended 31 December 2019 of $507,000 to a third party, the ultimate beneficiary of which remains unclear and may have included employees and directors of the Group's Chinese subsidiaries identified as Key Management Personnel. As the records associated with these bonus payments are conflicting and not reliable, the $507,000 has not been included in the restated Remuneration Report for the year ended 31 December 2019. We identified concerns regarding the reliability of the underlying source records, such as indicators that payments have been made not to employees but to third parties where the ultimate beneficiary was unclear, or which are otherwise suspect.

In the absence of the Group providing reliable information to alleviate our concerns, we consider to have not gathered sufficient appropriate audit evidence regarding the characterisation of these transactions, and therefore whether exclusion from the short-term benefits cash bonuses in the Remuneration Report is in compliance with section 300A. If these payments are true and fair bonus payments, they should increase the reported amounts of cash bonuses paid during the year ended 31 December 2019 and impact the reported proportions of fixed remuneration and at risk remuneration for the prior year.

Directors' responsibilities

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

Our responsibilities

We have audited the Remuneration Report included in pages 15 to 20 of the Directors' report for the year ended 31 December 2020.

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

KPMG

KPMG

Sarah Cain

Partner

Melbourne

31 March 2021

The shareholder information set out below was applicable as at 9 March 2021.

Distribution of equitable securities

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

	Number of holders	Ordinary shares % of total shares issued	Number of shares
1 to 1,000	631	0.05	311,130
1,001 to 5,000	1,852	0.82	5,154,040
5,001 to 10,000	1,231	1.49	9,326,388
10,001 to 100,000	3,497	19.26	120,372,772
100,001 and over	823	78.38	489,836,179
	8,034	100.00	625,000,509
Holding less than a marketable parcel	-	-	-

Equity security holders

Twenty largest quoted equity security holders

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

	Ordinary shares Number held	% of total shares issued
LINK TRADERS (AUST) PTY LTD SUITE 405	55,411,368	8.87
ZZL PTY LTD (ZZL FAMILY A/C)	25,104,000	4.02
CITICORP NOMINEES PTY LIMITED	17,333,263	2.77
MR EVAN PHILIP CLUCAS	14,948,984	2.39
LINK ENTERPRISES (INTERNATIONAL) PTY LTD	12,640,146	2.02
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	9,186,885	1.47
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	6,833,698	1.09
MR TINGSHAN LIU	6,263,120	1.00
NEWVEST PTY LTD	6,099,860	0.98
LESWEEK PTY LIMITED	5,559,051	0.89
MR KYLE STUART PASSMORE	5,527,500	0.88
QUIZETE PTY LTD	5,279,000	0.84
MR JIAN DENG	5,270,000	0.84
MR EDWIN PAUL CAYZER	5,137,483	0.82
SHARKY HOLDINGS PTY LTD (MORRIS FAMILY A/C)	4,800,000	0.77
MR MARIO SPIRANOVIC	4,786,827	0.77
MR DAVID NEVILLE COLBRAN	4,715,575	0.75
THIRTY SIXTH VILMAR PTY LTD	4,037,875	0.65
HONGMEN PTY LTD (HONGMEN FAMILY A/C)	3,756,191	0.60
BOODUP NOMINEES PTY LTD (OTTER SUPER FUND A/C)	3,741,211	0.60
	206,432,037	33.02

Unquoted equity securities

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

Substantial holders

Substantial holders in the Company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
Laurence Freedman	69,483,912	11.12

Voting rights

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

Ordinary shares

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

There are no other classes of equity securities.