Phoslock Environmental Technologies Limited
(formerly known as Phoslock Water Solutions Limited) and its Controlled Entities
A.B.N. 88 099 555 290

Appendix 4E
Preliminary Final Report
For the Year Ended 30 June 2018

Previous Corresponding Reporting Period: 1 July 2016 to 30 June 2017

Results for announcement to the market:		$A'000		$A'000
Revenues from ordinary activities	Up	11,882	to	15,707
Net profit before tax (before options expenses)	Up	4,516	to	2,730
Net profit before tax (NPBT)	Up	4,301	to	914
Gain from ordinary activities after tax attributable to members (NPAT)	Up	3,495	to	108

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

Detailed discussion on results contained in Director's Report

Details of entities over which control has been gained or lost

Beijing Ecosystime Environmental Science and Technology Co., Ltd was incorporated on 13 March 2018

Change of name

The Company has changed its name from Phoslock Water Solutions Limited to Phoslock Environmental Technologies Limited on 17 August 2018

Annual Meeting

The annual meeting will be held as follows:
Place : Westin Hotel, Sydney
Date : Thursday 22 November 2018
Time : 10:00am

Approximate date the annual report will be available: 15 October 2018

NTA Backing	Current Period	Previous Period
Net tangible asset backing per ordinary shares (cents per share)	2.90	0.47

Mr Robert Schuitema

Company Secretary

Dated the 27th day of August 2018

Phoslock Environmental Technologies Limited
(formerly known as Phoslock Water Solutions Limited)
and its Controlled Entities

A.B.N. 88 099 555 290

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

CORPORATE INFORMATION

Directors

Laurence Freedman AM
Chairman

Robert Schuitema
Managing Director

Zhigang Zhang (张志刚)
Non Executive Director

Brenda Shanahan
Non Executive Director

Senior Management

Robert Schuitema
Managing Director & Company Secretary

Andrew Winks
General Manager - Global Operations

Nigel Traill
General Manager - International Sales

Ting Shan Liu (刘廷善)
General Manager - Phoslock Beijing

Zhao Peng (Jason) Hai (海兆鹏)
Manager - Changxing Factory

Yan Fai (Chris) Hui
Group Accountant

Office

Sydney - Head Office
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Email : enquires@phoslock.com.au
Website : www.phoslock.com.au

Auditor

KPMG
KPMG Tower Three
International Towers Sydney
300 Barangaroo Avenue
Sydney NSW 2000 Australia

Share Register

Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street
Sydney NSW 2000 Australia
Phone : +61 2 8234 5000
Fax : +61 2 8234 5050
Email : web.queries@phoslock.com.au
ASX Listing Code: PET

Phoslock Environmental Technologies Limited
(formerly known as Phoslock Water Solutions Limited) and its Controlled Entities
A.B.N. 88 099 555 290

Consolidated Financial Statements
For the Year Ended 30 June 2018

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DIRECTOR'S REPORT

Your directors present their report on the Company and its controlled Entities ("the consolidated entity" or "Group") for the financial year ended 30 June 2018.

Shareholders approved on 17 August 2018 a change of name of the Company to Phoslock Environmental Technologies Limited ("PET").

Directors

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

Mr Laurence Freedman AM
Mr Robert Schuitema
Mr Zhigang Zhang
Mrs Brenda Shanahan (appointed on 15 September 2017)
Ms Pam Allan (retired on 22 November 2017)

Company Secretary

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

Operating and Financial Review

Principal Activities

The principal activities of the consolidated entity during the financial year were providing design, engineering and project implementation solutions for water related projects and water treatment products to clean up lakes, rivers, canals and drinking water reservoirs. The Company is headquartered in Sydney, Australia and has sales and marketing offices in Australia, China, Germany, UK and licensees and sales agents in 10 countries. The Company operates a large multi-purpose manufacturing facility at Changxing, central China. The Company devotes significant resources on the evaluation and development of new water treatment products and technologies through in-house development, licensing arrangements or acquisition.

Operating Results

Sales revenue increased by 310% to $15,707,100 (2017: $3,825,406). Total revenue was $16,254,499 (2017: $4,227,307).

Net operating profit before option, finance costs and tax for 2018 was $2,852,748 versus a loss of $1,539,497 for 2017, an improvement of $4,392,245.

DIRECTOR'S REPORT (CONTINUED)

The break-down of the Group operating performance was:

FY2017 - 2018	Total Revenue & Other Income	Operating Performance
International operations	4,714,710	1,064,508
China operations	11,539,789	2,677,811
	16,254,499	3,742,319
Finance and option charges		(1,898,600)
Corporate charges *		(930,140)
Tax payable		(805,553)
Profit after tax		108,026

* including directors' fee, listing cost and holding company expenses

Gross profit for FY2018 was $7,919,738 (2017: $1,343,263). The gross profit margin was 50.4% (2017: 35.1%). The gross profit margin increased due to construction and engineering work undertaken and cost savings in the production of water treatment products from the new Changxing manufacturing facility.

Operating expenses excluding option expenses, depreciation and amortisation, and finance cost for the year were $5,465,225 (2017: $3,227,982) an increase of $2,237,243. The major increases were employee costs, occupancy and director/listing & professional fees. During FY2018 employee numbers increased by 40 employees, from 20 at the beginning of the financial year to 60 at the end of the financial year. The majority of the new employees were in Beijing sales and project implementation team, and workers at our manufacturing facility in Changxing. For FY2019, the Company is looking to increase employee numbers by further 15 - 20 with additional sales specialists in China, additional technical and research & development professionals in Changxing and additional technical sales specialists in the international operations.

Net operating profit before option, finance costs and tax for FY2018 was $2,852,748. This was a $4,392,245 improvement on FY2017.

During the year ended 30 June 2017, the Company issued a total of 65 million performance options to shareholders, executives, employees and consultants. These performance options as disclosed in Note 25 include varying terms and conditions amongst the option recipients, including varying grant dates, start dates, vesting periods and vesting conditions. In addition, the Company issued 30 million shares on 10 April 2017 to China Environmental Corporation (CEC) at a discount to the market price.

In July 2017 the Company received an independent advice from a major accounting firm on the valuation of the options and these values were used in the June 2017 and December 2017 accounts.

DIRECTOR'S REPORT (CONTINUED)

Accounting for share based payments under AASB 2 is complex, with a significant number of assumptions and estimates involved in determining option values. The Company has revisited the calculation of the option values under AASB 2 resulting in a higher share based payments in FY2018 ($1,815,966) and prior period adjustment to the FY2017 accounts of $1,564,783 relating to the CEC transaction and employee options. Both these amounts are non-cash and do not affect the underlying operating performance of the Company. Effect of the change can refer to Note 30 in the Notes to the Consolidated Financial Statements.

The issuance of options to executives, employees and consultants provides an effective remuneration tool to align the interests of employees and shareholders. The option issuance in June 2017, which included significant performance milestones, has created a new business structure in China and accelerated the development of international business, has been extremely successful. The options, likely to vest in FY2019 will result in significant cash inflows (up to $6,825,000) to the Company.

The consolidated profit of the consolidated entity after providing for income tax and non-controlling interests amounted to $108,026 (2017(restated): loss of $3,387,396).

The FY2018 accounts reflect a large investment in the Chinese businesses in Beijing and Changxing. This investment has produced significant financial benefits to the Group with sales of $11,539,789 and operating profit of $2,677,811 in the first year of business expansion in China.

Current assets of the Company as at 30 June 2018 were $18,146,389, made up of cash ($4,324,053); trade and other receivables ($11,491,617) and inventories ($1,772,897) and other assets ($557,822). Nearly 85% of the trade receivables were less than 20 days old as at 30 June 2018.

Current liabilities of the Company as at 30 June 2018 were $6,326,429, made up of trade and other payables ($4,504,009); employee provisions ($363,752); tax payable in China ($1,148,646) and a loan made to the European subsidiary from the 40% shareholder ($310,022).

Current assets less current liabilities as at 30 June 2018 were $11,819,960 (2017: $881,283).

Plant & equipment increased by $435,930 to $1,474,023, mainly attributable to the investment in Changxing manufacturing facility.

During FY2018 the Company raised a total of $9,747,671 in new equity via a share placement to institutional and sophisticated investors, a Share Purchase Plan to existing shareholders which 24% of shareholders subscribed for shares, conversion of employee options and unlisted options into shares. In addition, related party loans of $1,500,000 was repaid. This resulted in a significant improvement in the balance sheet. The Company's net assets improved to $14,056,894 as at 30 June 2018. The Company's gearing ratio as at 30 June 2018 (including trade creditors) was 3.4% (2017: 31.5%).

Dividends Paid or Recommended

No dividends have been paid or declared for payment in relation to the financial year ended 30 June 2018 (2017: Nil)

Review of Operations

FY2018 was the first year of the new business structure of the Company. This resulted in record sales revenue for the year of $15,707,100, represented a 310% increase over FY2017.

PET signed a transformational agreement in early May 2017 with BHZQ Environmental Engineering Technology Company Limited. BHZQ is 70% owned by Beijing Enterprises Water Group (BEWG), a Hong Kong listed company with an A$10 billion market capitalisation. BEWG is the largest water treatment company in Asia and one of the top ten water companies in the world.

Phoslock (Beijing) Ecological Engineering Technology Co., Ltd (PBEE, which is 100% owned by PET) has acquired a team of experienced engineers and project implementation experts that can undertake end-to-end design, engineering, project site works, application and maintenance of water remediation in rivers, canals, wetlands and lakes across China using PET’s traditional material (Phoslock) and a range of other remediation products (zeolites, bacteria and other products).

PBEE commenced business in July 2017. In its first year of operation, PBEE and its wholly owned subsidiary, Beijing Ecosystime Environmental Science and Technology Co., Ltd (BEST) recorded sales of $11,349,051. The major projects undertaken were treatment of polluted canals in Beijing using Phoslock and a range of other remediation products. The largest project undertaken was a wetland project in south Beijing which required the delivery of 55,000 tons of zeolites and other materials. This project was completed in June 2018. PBEE and BEST had some $10 million of work in hand as at balance date, which will be completed in FY2019. The largest project is a $8 million wetland project, similar to the first wetland project completed in June 2018. In the first year of operation, the majority of PBEE’s business was in and around Beijing. PBEE developed representation during the year in four other cities covering the south, south west, west and central China. This is important to develop the business throughout China.

DIRECTOR'S REPORT (CONTINUED)

PET's international business (excluding China) recorded revenue of $4,714,710, 17% higher than FY2017.

30% of international sales came via the Company's Brazilian licensee, HidroScience, which participated as a member of a consortium to undertake work on the restoration of Pampulha, a large inner-city lake. The Pampulha contract was completed by early 2018. In order to maintain Pampulha's water quality the consortium secured an ongoing maintenance contract to apply Phoslock into it. HidroScience is also working on a number of reservoirs and other lakes in northern and central Brazil.

36% of international sales came from the European/UK region, where nearly 80 lake projects have been completed since early 2007. The European team completed its largest ever application in Europe during the year, with 300 tons of Phoslock applied to Goldap lake, in eastern Poland. The UK team completed its second application to Strathclyde Lock, as part of improving water quality for the European triathlon championships in August 2018. A number of smaller applications were completed in six other European countries.

Continued progress was made during the year in the development of the Phoslock business in North America, in both Canada and the United States. Sales for FY2018 were 22% of total international sales. Our US licensee, SePRO Corporation, has developed a strong retail and mid-market business. A large project was completed in Quebec, Canada on Lac Bromont. The North American market offers great potential for Phoslock with a large pipeline of potential and advanced projects in this region.

Australian sales made up 12% of international sales. A number of smaller projects were undertaken during the year, most of them from repeat customers.

The construction of a wholly owned and operated manufacturing facility in Changxing, China was completed in August 2017 within budget. Changxing is located 150km from Shanghai and its export ports and is serviced by excellent transport including the high-speed train. The Changxing Economic Development Board has provided a range of rebates and tax incentives covering the first five years of operations. A number of the incentives are linked to sales revenue from the manufacturing facility. The total value of incentives that could be paid to Changxing company over the first five years is approx. $1.3 million including $169,469 paid in the first year of operation. The manufacturing facility has an initial production capacity of 15,000 tons per annum of Phoslock products and can be expanded to 45,000 tons per annum with the addition of extra equipment. The manufacturing facility is 6,000 square metres and has significant room for the Phoslock operation, manufacturing and blending of other materials and storage areas for raw materials and inventories. The new factory operates under strict EPA requirements including no discharge of water

DIRECTOR'S REPORT (CONTINUED)

and air pollutants. All waste water is treated in-house in a state-of-the-art waste water treatment facility. In the first ten months of operation, the manufacturing facility operated to production design parameters and met target production costs. The Phoslock production line is currently being run to meet forecast demand.

Financial Position

The net assets of the consolidated entity was $14,056,894 as of 30 June 2018, an improvement of $12,121,225 as of 30 June 2017. The increase in net assets is mainly as a result of balance sheet restructuring including equity raisings totalling $9,747,671 from a share placement to institutional and sophisticated investors, a Share Purchase Plan to existing shareholders, conversion of employee options and unlisted options into shares. In addition, related party loans of $1,500,000 were repaid. Improved business activities led to increased inventory holdings, receivables and plant & equipment. As at 30 June 2018 the Company had no external loans. Its liabilities were made up of trade and other payables, employee annual leave and long service leave provisions, tax payable and a $310,022 loan to Phoslock Europe from a 40% shareholder.

Capital Management

During FY2018 the Company raised a total of $9,747,671 in new equity via a share placement to institutional and sophisticated investors, a Share Purchase Plan to existing shareholders, conversion of employee options and unlisted options into shares. In addition, related party loans of $1,500,000 was repaid. This resulted in a significant improvement in the balance sheet. The Company's net assets improved to $14,056,894 as at 30 June 2018. The Company's gearing ratio as at 30 June 2018 (including trade creditors) was 3.4% (2017: 31.5%).

Future Developments, Prospects and Business Strategies

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

(i) Diversifying the Company’s business base through its design, engineering and project implementation team which will not only be a new source of revenue but increase sales of Phoslock and other materials in these projects;

(ii) Rapid expansion of the design, engineering & construction and materials business throughout China;

(iii) Large one-off projects in China, North & Southern America, and Europe;

(iv) Lower production and distribution costs of Phoslock and other materials through the Changxing manufacturing operation;

(v) Evaluation and development new water treatment products and technologies through in-house development, licensing arrangements or acquisition.

DIRECTOR'S REPORT (CONTINUED)

Significant Changes in State of Affairs

During FY2018 the Company issued $9,747,671 of new equity and repaid loans of $1,500,000. This resulted is a significantly improved balance sheet and liquidity which has enabled the Company to grow its businesses in China and internationally. The Company has increased employee from 20 to 60 during the financial year. Sales revenue increased by 310% for FY2018 and the Company recorded a net operating profit before option, finance costs and tax of $2,852,748 versus ($1,539,497) for 2017, an improvement of $4,392,611.

FY2018 was a year of rapid expansion for the Company. The larger business base and stronger capital base will allow the Company to continue to grow strongly in FY2019 and beyond.

Events after the Reporting Period

On 4 July 2018 the Company announced that it had raised $5.5 million from a share placement to institutional and sophisticated investors. This transaction was settled on 12 July 2018. 15,377,780 new shares were issued.

On 17 August 2018 shareholders approved the change of the Company's name to Phoslock Environmental Technologies Limited. ASIC approved the name change on 17 August 2018.

On 21 August 2018 the Company's share code on the Australian Securities Exchange changed from PHK to PET.

Environmental Issues

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

- The Company commits to comply with all regulations governing the use and application of its water technology products both in Australia and internationally. In Australia, Phoslock is imported from a manufacturing operation in China that has received NICNAS certification. The certification is renewed annually.
- Phoslock has been awarded the North American Drinking Water certification (NSF/ANSI 60) since 2011. The certification is renewed annually.

DIRECTOR'S REPORT (CONTINUED)

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

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

Information on Directors

Mr Laurence Freedman AM	**Chairman (Non-Executive)**
Qualifications	CPA, MAusIMM
Experience	Board member since 20 October 2010.
	Mr Freedman has a long history and involvement with listed and private companies as both a major shareholder and also as non-executive director. He founded the EquitiLink Group, building it into a global investment management corporation, which he sold with his partner in 2000. He has held Chairman and Director roles in many international companies. He currently manages private investments in shares, property and fixed interest investments.
	Mr Freedman is Chairman of the Freedman Foundation, a philanthropic enterprise, in Australia.
	Mr Freedman was previously Chairman of ASX listed companies KalNorth Gold Mines Ltd and Inca Copper & Gold Ltd.
Interest in Shares & Options	88,214,249 Ordinary Shares in Phoslock Environmental Technologies Limited via his related company, Link Traders (Aust) Pty Ltd and related companies, and related party family members.
Special Responsibilities	Mr Freedman is Chairman of the Remuneration Committee and a Member of the Nomination Committee.

Mr Robert Schuitema	**Managing Director (Executive)**
Qualifications	Chartered Accountant, BCA, INFINZ
Experience	Board member since April 2005.
	Former Managing Director of investment bank Chase Manhattan and later JP Morgan Chase responsible for the bank's mining, metals and project finance business in Australia and the Asia Pacific region.
	Mr Schuitema was previously a Director of ASX listed companies KalNorth Gold Mines Ltd, Electo Optical Systems Ltd and Inca Copper & Gold Ltd.
Interest in Shares & Options	14,081,663 Ordinary Shares in Phoslock Environmental Technologies Limited via his related company, Sail Ahead Pty Ltd and related party family members.
	3,000,000 Options over Phoslock Environmental Technologies Limited shares
Special Responsibilities	Mr Schuitema is a Member of the Audit and Compliance Committee.

DIRECTOR'S REPORT (CONTINUED)

Mr Zhigang Zhang	**Director (Non-Executive)**
Experience	Board member since June 2017.
	Mr Zhang is a senior executive of a subsidiary of Beijing Enterprises Water Group (HK Listed 371), the largest water group in China.
	Mr Zhang has worked in the water remediation and water treatment industry in China and overseas for over 30 years.
Interest in Shares & Options	32,500,000 Ordinary Shares and 30,000,000 Unlisted Options in Phoslock Environmental Technologies Ltd held directly and indirectly.
Special Responsibilities	Mr Zhang is a Member of the Remuneration and Nomination Committees.

Mrs Brenda Shanahan	**Director (Non-Executive)**
Qualifications	B. Comm, Fellow of AICD
Experience	Board member since September 2017
	Mrs Shanahan has a research background in finance in Australian and overseas economies and share markets. Previously she held executive positions included Managing Director of W M Mercer Investment Consulting for Australia and Asia and a member of their international board.
	Mrs Shanahan is a former Director of EquitiLink Limited and former Non-Executive Director of ASX listed company, Challenger Financial Services, and Challenger Limited. She is also a Director of Bell Financial Group Ltd. and Clinuvel Pharmaceuticals Ltd., DMP Asset Management Ltd, St Vincent's Medical Research Institute in Melbourne Foundation and the Chair of the Aitkenhead Centre of Medical Discovery.
	Recently Mrs Shanahan was bestowed with an honorary Doctorate from Swinburne University of Technology.
Interest in Shares & Options	1,000,000 Ordinary Shares in Phoslock Environmental Technologies Limited held directly and indirectly.
Special Responsibilities	Mrs Shanahan is Chairperson of the Audit and Compliance Committee, and a Member of the Remuneration and Nomination Committees.

This report details the nature and amount of remuneration for each director and key management personnel of Phoslock Environmental Technologies Limited.

Remuneration Report (Audited)

Remuneration Policy

The remuneration policy of Phoslock Environmental Technologies Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering bonus payments based on the consolidated entity’s financial results. The Board of Phoslock Environmental Technologies Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the high-quality executives and directors to run

DIRECTOR'S REPORT (CONTINUED)

and manage the consolidated entity, as well as create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for board members and senior executives of the consolidated entity is as follows:

- The remuneration policy, setting the terms and conditions for the executive director and other senior executives, was developed by the remuneration committee. The remuneration committee currently comprises of only non-executive directors. The Company has adopted the ASX recommendation for the remuneration committee to comprise only non-executive directors.

- All executives receive a base salary (which is based on factors such as length of service and experience), superannuation and share options or a bonus (if certain milestones are met). The remuneration committee reviews executive packages annually by reference to the consolidated entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries. Executives and directors do not receive any other retirement benefits.

- All remuneration paid to key management personnel is measured at cost to the Company and expensed. Bonuses, in the form of a thirteenth month, totalling $65,248 were paid to five key management personnel during FY2017/18 (FY2016/17: $60,000).

The Board's policy is to remunerate non-executive directors by reference to market rates for comparable companies, time commitment, responsibilities and experience relevant to the industry. The remuneration committee determines payments to non-executive directors and reviews their remuneration annually based on market practice, duties and accountability.

The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. The current aggregate maximum sum available for remuneration of non-executive directors is set at $500,000 per year (approved at the 2017 Annual General Meeting). Fees for non-executive directors are not linked to the performance of the consolidated entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company and are able to participate in share placements on the same terms as other investors subscribing for shares.

DIRECTOR'S REPORT (CONTINUED)

The aggregate of non-executive director fees (including superannuation) for FY2017-18 was $338,678 (2017: $129,258). As at 30 June 2018, the Board comprised three non-executive directors and one executive director. The four directors, directly and indirectly, held 135,795,912 (2017: 132,989,483) ordinary fully paid shares in the Company as at 30 June 2018 which comprised 28.2% (2017: 32.2%) of the total issued shares of the Company.

Key Management Personnel Remuneration

	Short-Term Employment Benefits				Post Employment Benefits	Long Term Benefits	Share Based Payments	Total	Performance Related
30 June 2018	Salary, Fees & Commission	Non Monetary	Bonus	Allowance	Superannuation	Accrued Long Service Leave	Shares & Options		
Directors	$	$	$	$	$	$	$	$	%
Mr Robert Schuitema	295,191	1,082	22,515	67,400	25,000	26,135	146,900	584,223	25.1%
The Hon. Pam Allan [(i)]	79,167	-	-	-	7,917	-	-	87,084	0.0%
Mr Laurence Freedman	100,000	-	-	-	10,000	-	-	110,000	0.0%
Mr Zhigang Zhang	73,305	-	-	-	7,330	-	-	80,635	0.0%
Mrs Brenda Shanahan	55,417	-	-	-	5,542	-	-	60,959	0.0%
	603,080	1,082	22,515	67,400	55,789	26,135	146,900	922,901	15.9%
Executives KMP									
Mr Nigel Traill	159,999	-	14,167	-	18,032	27,107	97,933	317,238	30.9%
Mr Andrew Winks	130,000	-	10,833	29,400	20,923	26,102	97,933	315,191	31.1%
Mr Tingshan Liu	106,219	-	8,140	3,193	36,815	-	1,054,868	1,209,235	87.2%
Mr Changqing Jia	67,608	-	5,495	2,474	32,678	-	-	108,255	0.0%
Mr Zhao Peng (Jason) Hai	78,956	-	4,098	-	18,684	-	50,205	151,943	33.0%
	542,782	-	42,733	35,067	127,132	53,209	1,300,939	2,101,862	61.9%
Total	1,145,862	1,082	65,248	102,467	182,921	79,344	1,447,839	3,024,763	47.9%

	Short-Term Employment Benefits				Post Employment Benefits	Long Term Benefits	Share Based Payments	Total	Performance Related
30 June 2017	Salary, Fees & Commission	Non Monetary	Bonus	Allowance	Superannuation	Accrued Long Service Leave	Shares & Options		
Directors	$	$	$	$	$	$	$	$	%
Mr Robert Schuitema	198,128	10,000	20,000	53,484	34,598	11,229	33,002 [(ii)]	360,441	6.5%
The Hon. Pam Allan	55,003	-	-	-	5,501	-	-	60,504	0.0%
Mr Laurence Freedman	62,503	-	-	-	6,251	-	-	68,754	0.0%
M Zhigang Zhang	-	-	-	-	-	-	-	-	0.0%
	315,634	10,000	20,000	53,484	46,350	11,229	33,002	489,699	4.7%
Executives KMP									
Mr Nigel Traill	153,033	13,500	20,000	-	19,163	1,268	22,001 [(ii)]	228,965	9.9%
Mr Andrew Winks	121,496	13,500	20,000	12,000	15,998	3,066	22,001 [(ii)]	208,061	11.2%
Dr Sarah Groves	80,769	-	-	-	8,654	2,629	5,500 [(ii)]	97,552	0.0%
Zhongming Hong	36,400	-	-	81,600	24,000	-	-	142,000	0.0%
Dr Xingyuan Wang	-	-	-	42,000	12,000	-	-	54,000	0.0%
	391,698	27,000	40,000	135,600	79,815	6,963	49,502	730,578	6.1%
Total	707,332	37,000	60,000	189,084	126,165	18,192	82,504	1,220,277	5.6%

(i) Ms Pam Allan retired on 22 November 2017
(ii) Prior year figures restated

The restatement of previous year share based payments was due to the revised calculation of the option values under AASB 2. The share based payment expense relating Robert Schuitema, Nigel Traill, Andrew Winks and Sarah Groves were increased by 30,779, 20,519, 20,519 and 5,315 respectively, increasing their total remuneration by the corresponding amount."

DIRECTOR'S REPORT (CONTINUED)

Remuneration

The executive director and five executives were paid a bonus (13th month salary) totalling $65,248 during the year (2017: $60,000). No shares or options or performance rights were issued to any PET executive of director during the year. Two directors and one executive participated in the September 2017 placement on the same terms as other participants in the share placement. A share purchase plan was made available to all shareholders on the same terms as the September 2017 share placement, which two Directors participated in.

Shares Held and Movements during FY2018 for Key Management Personnel

The movement during the year in the number of ordinary shares in Phoslock Environmental Technologies Limited held, directly, indirectly or beneficially, by each key management personnel, including their related parties is as follows:

Key Management Personnel

	Balance 1.07.2017	Placement	Options Exercised	On Market Purchases/SPP	On Market Sales	Balance 30.06.2018
	No.	No.	No.	No.	No.	No.
Mr Laurence Freedman	88,008,535	-	-	205,714	-	88,214,249
Mr Robert Schuitema	14,495,948	-	2,000,000	85,715	(2,500,000)	14,081,663
The Hon. Pam Allan	485,000	-	-	-	-	485,000
Mr Zhigang Zhang	30,000,000	2,500,000	-	-	-	32,500,000
Mrs Brenda Shanahan	-	1,000,000	-	-	-	1,000,000
Mr Nigel Traill	3,769,360	-	2,000,000	-	(1,522,116)	4,247,244
Mr Andrew Winks	640,373	-	2,000,000	-	(920,000)	1,720,373
Mr Tingshan Liu	-	1,000,000	-	-	(500,000)	500,000
Mr Changqing Jia	-	-	-	-	-	-
Mr Zhao Peng (Jason) Hai	-	-	-	-	-	-
	137,399,216	4,500,000	6,000,000	291,429	(5,442,116)	142,748,529
Total % PET shareholding	33.3%					29.6%

DIRECTOR'S REPORT (CONTINUED)

Options Issued as Part of Remuneration for FY2018

The movement during the year in the number of options over ordinary shares in Phoslock Environmental Technologies Limited held directly, indirectly or beneficially, by each key management personnel, including their related parties is as follows:

	Balance 1.07.2017	Options Acquired	Options Exercised	Balance 30.06.2018	Total Vested 30.06.2018	Total Exercisable 30.06.2018	Total Unexercisable 30.06.2018
	No.	No.	No.	No.	No.	No.	No.
Mr Laurence Freedman	-	-	-	-	-	-	-
Mr Robert Schuitema	5,000,000	-	(2,000,000)	3,000,000	-	-	3,000,000
The Hon. Pam Allan	-	-	-	-	-	-	-
Mr Zhigang Zhang	30,000,000	-	-	30,000,000	-	-	30,000,000
Mrs Brenda Shanahan	-	-	-	-	-	-	-
Mr Nigel Traill	4,000,000	-	(2,000,000)	2,000,000	-	-	2,000,000
Mr Andrew Winks	4,000,000	-	(2,000,000)	2,000,000	-	-	2,000,000
Mr Tingshan Liu	20,000,000	-	-	20,000,000	-	-	20,000,000
Mr Zhao Peng (Jason) Hai	1,000,000	-	-	1,000,000	-	-	1,000,000
	64,000,000	-	(6,000,000)	58,000,000	-	-	58,000,000

The movement during the period in the number of options over ordinary shares in Phoslock Environmental Technologies Limited issue to employees and consultants is as follows:

	2018 Options	Average	2017 Options	Average
Outstanding at the beginning of the year	53,600,000	$0.097	18,600,000	$0.082
Options issued during the year	-	-	35,000,000	$0.105
Vesting conditions not met	-	-	-	-
Vested options exercised	(18,600,000)	$0.082	-	-
Outstanding at year end	**35,000,000**	**$0.105**	**53,600,000**	**$0.097**
Exercisable at year end	**-**	**-**	**5,000,000**	**$0.060**

* Includes options issued to employees and consultants

The 65,000,000 options were outstanding at 30 June 2018 had a weighted average exercise price of $0.105 and a weighted average expected life of 1.5 years. The average exercise price for the options outstanding at 30 June 2017 was $0.097.

Options do not entitle the holder to participate in any share issue of the Company, nor do they carry any voting rights or rights to dividends.

For options to convert into ordinary shares, the vesting terms of the option must be met, then the option holder must pay the option price to the Company. Once this has been done, one option will convert into one fully paid ordinary share.

DIRECTOR'S REPORT (CONTINUED)

Loans to Key Management Personnel

Details of loans made to directors of Phoslock Environmental Technologies Limited and other key management personnel of the Group, including related entities are as follows:

Aggregates for Key Management Personnel

	2018 $	2017 $
Balance at the beginning of the year	-	37,000
Loans advanced	-	-
Loans repayments received (offset against salary)	-	(37,000)
Balance at the end of the year	-	-

Other Transactions with Key Management Personnel and/or their Related Parties

Transactions with Key Management Personnel and/or Related Parties are detailed in Note 26. These transactions were conducted on terms no more favourable than those reasonably expected under arm's length dealings with unrelated parties.

Employment Contracts of Directors and Senior Executives

The employment conditions of the Managing Director and executives are formalised in contracts of employment or letters of appointment.

Employment contracts for senior executives stipulate a range of one to three-month resignation periods (six months for the Managing Director). 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. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct, the Company can terminate employment at any time. Directors and Key Management Personnel (and their related parties) hold 142,748,529 (2017: 137,399,216) and 58,000,000 options outstanding as at 30 June 2018 (2017: 62,700,000).

There were no termination payments during the year (2017: Nil).

This concludes the audited remuneration report.

DIRECTOR'S REPORT (CONTINUED)

Meetings of Directors

During the financial year, 14 meetings of directors (including committees of directors) were held. Attendances by each director during the year were:

			Committee Meetings			
	Directors' Meeting		Audit & Compliance		Remuneration	
Mr Laurence Freedman	12	12	-	-	-	-
Mr Robert Schuitema	12	12	2	2	-	-
The Hon. Pam Allan	5	3	1	1	-	-
Mr Zhigang Zhang	12	12	-	-	-	-
Mrs Brenda Shanahan	10	10	1	1	-	-

Indemnifying Officers or Auditor

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

The Company has paid premiums totalling $43,659 (2017: $39,793) to insure all directors and executives against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director or officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

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

Proceedings on Behalf of Company

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

Non-Audit Services

During the year, the Company auditor, KPMG, has performed certain other services in addition to its statutory duties. The Directors are satisfied that:

(a) The non-audit services provided that during 2017/2018 by KPMG as the external auditor were compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

DIRECTOR'S REPORT (CONTINUED)

(b) Any non-audit services provided during 2017/2018 by KPMG as the external auditor did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- KPMG services have not involved partners of staff acting in a managerial or decision-making capacity with the Group or being involved in the processing or originating of transactions.
- KPMG non-audit services have only been provided where the Group satisfied that the related function or process will not have a material bearing on the audit procedures.
- KPMG partners and staff involved in the provision of non-audit services have not participated in associated approval or authorisation processes.
- A description of all non-audit services undertaken by KPMG and the related fees has been reported to the Board to ensure complete transparency in relation to the services provided.
- A declaration required by section 307C of the *Corporations Act 2001* confirming independence has been received from KPMG.

Details of the amounts paid to KPMG for audit and non-audit services provided during the year are set out in Note 7 to the Financial Statements.

Auditor's Independence Declaration

The lead auditor's independence declaration in accordance with Section 307C of the *Corporations Act 2001*, for the year ended 30 June 2018 has been received and can be found on page 21 of the Financial Report.

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

Mr Robert Schuitema	Mrs Brenda Shanahan
Managing Director	Non-Executive Director - Chairman of Audit Committee
Dated at Sydney, 27th August 2018	Dated at Sydney, 27th August 2018

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

To the Directors of Phoslock Environmental Technologies Limited, formerly known as Phoslock Water Solutions Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Phoslock Environmental Technologies Limited, formerly known as Phoslock Water Solutions Limited for the financial year ended 30 June 2018 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

Sarah Cain

KPMG

Sarah Cain

Partner

Sydney

27 August 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the Year Ended 30 June 2018

	NOTE	2018 $	Restated 2017 $
Sales revenue	2	15,707,100	3,825,406
Cost of sales		(7,787,362)	(2,482,143)
Gross profit		**7,919,738**	**1,343,263**
Other income	2	547,399	401,901
Distribution expenses		(92,681)	(44,407)
Marketing expenses		(327,200)	(279,800)
Occupancy expenses	3	(312,817)	(188,070)
Director, listing & professional fee		(1,207,480)	(581,246)
Administrative expenses		(3,674,211)	(2,191,138)
Operating profit		**2,852,748**	**(1,539,497)**
Finance costs	3	(82,634)	(225,222)
Foreign exchange losses		(40,569)	(22,086)
Options expenses	25	(1,815,966)	(1,600,591)
Profit/(Loss) before income tax		**913,579**	**(3,387,396)**
Income tax expense	4	(805,553)	-
Profit/(Loss) for the year		**108,026**	**(3,387,396)**
Other comprehesive income			
Exchange differences arising on translation of foreign controlled entities		449,562	(11,868)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**557,588**	**(3,399,264)**
Profit/(Loss) for the year attributable to:			
- Owners of parent entity		1,304	(3,432,078)
- Non-controlling interest		106,722	44,682
Total profit/(loss) for the year		108,026	(3,387,396)
Total comprehensive income/(loss) for the year attributable to:			
- Owners of parent entity		450,866	(3,443,946)
- Non-controlling interest		106,722	44,682
Total comprehensive income/(loss) for the year		557,588	(3,399,264)
Earnings per share			
Basic earnings per share (cents per share)	8	0.00	(0.83)
Diluted earnings per share (cents per share)	8	0.00	(0.83)

The accompanying notes form part of these consolidated financial statements

Consolidated Statement of Financial Position
As at 30 June 2018

	NOTE	2018 $	Restated 2017 $
CURRENT ASSETS			
Cash and cash equivalents	9	4,324,053	1,234,243
Trade and other receivables	10	11,491,617	1,172,751
Inventories	11	1,772,897	897,336
Other assets	15	557,822	141,601
TOTAL CURRENT ASSETS		18,146,389	3,445,931
NON-CURRENT ASSETS			
Financial assets	9(a)	25,000	25,000
Property, plant and equipment	13	1,474,023	1,038,093
Intangible assets	14	77,501	-
Deferred tax assets	16	702,420	-
TOTAL NON-CURRENT ASSETS		2,278,944	1,063,093
TOTAL ASSETS		20,425,333	4,509,024
CURRENT LIABILITIES			
Trade and other payables	17	4,504,009	330,443
Financial liabilities	18	310,022	1,792,241
Other liabilities	5	-	89,830
Short term provisions	19	363,752	352,134
Tax payable		1,148,646	-
TOTAL CURRENT LIABILITIES		6,326,429	2,564,648
NON-CURRENT LIABILITIES			
Other liabilities	5	37,800	-
Long term provisions	19	4,210	8,707
TOTAL NON-CURRENT LIABILITIES		42,010	8,707
TOTAL LIABILITIES		6,368,439	2,573,355
NET ASSETS/(LIABILITIES)		14,056,894	1,935,669
EQUITY			
Issued capital	20	51,298,783	41,551,112
Reserves	21	3,988,202	1,970,679
Accumulated loss		(41,137,177)	(41,386,486)
Parent interest		14,149,808	2,135,305
Non-controlling interest		(92,914)	(199,636)
TOTAL EQUITY		14,056,894	1,935,669

The accompanying notes form part of these consolidated financial statements

Phoslock Environmental Technologies Limited
(formerly known as Phoslock Water Solutions Limited) and its Controlled Entities
A.B.N. 88 099 555 290

Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2018

	Issued capital	Option reserves	Foreign currency translation reserves	Accumulated losses	Total attributable to owners of the Company	Non-controlling interest	Total Equity
	$	$	$	$	$	$	$
30 June 2017 (Restated)							
Balance at 1 July 2016	**38,465,112**	**277,391**	**133,950**	**(37,983,793)**	**892,660**	**(244,318)**	**648,342**
Total comprehensive income							
Gain/(Loss) for the year (i)	-	-	-	(3,432,078)	**(3,432,078)**	44,682	**(3,387,396)**
Other comprehensive income	-	-	(11,868)	-	**(11,868)**	-	**(11,868)**
Total comprehensive income/(loss) for the year	**-**	**-**	**(11,868)**	**(3,432,078)**	**(3,443,946)**	**44,682**	**(3,399,264)**
Transactions with owners in their capacity as owners							
Shares issued during the year	3,086,000	-	-	-	**3,086,000**	-	**3,086,000**
Options expenses during the year (i)	-	1,600,591	-	-	**1,600,591**	-	**1,600,591**
Transfer option reserves to accumulated losses	-	(29,385)	-	29,385	**-**	-	**-**
Total transactions with owners in their capacity as owners	3,086,000	1,571,206	-	29,385	**4,686,591**	-	**4,686,591**
Balance at 30 June 2017	**41,551,112**	**1,848,597**	**122,082**	**(41,386,486)**	**2,135,305**	**(199,636)**	**1,935,669**
30 June 2018							
Balance at 1 July 2017	**41,551,112**	**1,848,597**	**122,082**	**(41,386,486)**	**2,135,305**	**(199,636)**	**1,935,669**
Total comprehensive income							
Gain/(Loss) for the year	-	-	-	1,304	**1,304**	106,722	**108,026**
Other comprehensive income	-	-	449,562	-	**449,562**	-	**449,562**
Total comprehensive income/(loss) for the year	-	-	449,562	1,304	**450,866**	106,722	**557,588**
Transactions with owners in their capacity as owners							
Shares issued during the year	7,975,171	-	-	-	**7,975,171**	-	**7,975,171**
Options exercised during the year	1,772,500	-	-	-	**1,772,500**	-	**1,772,500**
Options expenses during the year	-	1,815,966	-	-	**1,815,966**	-	**1,815,966**
Transfer option reserves to accumulated losses	-	(248,005)	-	248,005	**-**	-	**-**
Total transactions with owners in their capacity as owners	9,747,671	1,567,961	-	248,005	**11,563,637**	-	**11,563,637**
Balance at 30 June 2018	**51,298,783**	**3,416,558**	**571,644**	**(41,137,177)**	**14,149,808**	**(92,914)**	**14,056,894**

(i) Prior year figures restated - refer to Note 30

The accompanying notes form part of these consolidated financial statements

Consolidated Statement of Cash Flows
For the Year Ended 30 June 2018

	NOTE	2018 $	2017 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		6,825,575	3,442,759
Receipts from research and development grant		361,980	302,411
Payments to suppliers and employees		(11,389,771)	(6,482,995)
Interest received		18,036	1,495
Finance costs		(82,634)	(221,030)
Tax paid		(359,327)	-
NET CASH USED IN OPERATING ACTIVITIES	24	(4,626,141)	(2,957,360)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	13	(585,094)	(1,040,323)
Purchase of intangible assets		(77,977)	-
NET CASH USED IN INVESTING ACTIVITIES		(663,071)	(1,040,323)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		8,160,109	2,436,000
Proceeds from exercise of share options		1,772,500	-
Payment of transaction cost - equity raising		(184,938)	-
Proceeds from borrowings		-	3,000,000
Repayment of borrowings		(1,500,000)	(1,500,000)
NET CASH FROM FINANCING ACTIVITIES		8,247,671	3,936,000
Net increase/(decrease) in cash and cash equivalents held		2,958,459	(61,683)
Cash and cash equivalents at the beginning of the period		1,234,243	1,306,865
Translation difference		131,351	(10,939)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	9	4,324,053	1,234,243

The accompanying notes form part of these consolidated financial statements

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2018

Corporate Information

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

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

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

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

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

Statement of Compliance

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

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

The financial statements were authorised for issue by the Board of Directors on 27 August 2018.

Basis of Measurement

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

Functional and Presentation Currency

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

Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by the Group entities.

(a) Adoption of New Standard and Amendments to Standards

The Group has adopted the following new standard and amendments to standards which are relevant to the Group's operations and are mandatory for the financial year ended 30 June 2018:

Amendments to AASB 7	Disclosure Initiative
Amendments to AASB 12	Recognition of Deferred Tax Assets for Unrealized Losses
Annual Improvement Project	Annual Improvements 2014-2016 Cycle

The adoption of these new standard and amendments to standards does not have any significant effect on the results and financial position of the Group.

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

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

AASB 9: Financial Instruments and Associated Amending Standards

(i) Classification

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

AASB 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing categories of held to maturity, loans and receivables and available for sale.

Under AASB 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

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

Standards, Amendments to Standards and Interpretations which are not yet effective (continued)

AASB 9: Financial Instruments and Associated Amending Standards (continued)

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

Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for trade receivables and loans that are managed on a fair value basis. At 30 June 2018, the Group had no items to be measured at FVOCI based on new classification.

(ii) Impairment

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

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

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

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

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

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

Standards, Amendments to Standards and Interpretations which are not yet effective (continued)

AASB 9: Financial Instruments and Associated Amending Standards (continued)

Based on its assessment, the Group does not believe that the new impairment model will have a material impact on its accounting for financial assets held by the Group at this stage.

AASB 15: Revenue from Contracts with Customers

AASB 15 replaces the current accounting requirements applicable to revenue with a single, principles-based model. Apart from a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

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

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

The transitional provisions of this Standard permit an entity to either: restate the contracts that existed in each prior period presented per AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors (subject to certain practical expedients in AASB 15); or recognize the cumulative effect of retrospective application to incomplete contracts on the date of initial application. There are also enhanced disclosure requirements regarding revenue.

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2018

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

Standards, Amendments to Standards and Interpretations which are not yet effective (continued)

AASB 16: Leases

AASB 16 replaces the current accounting requirements applicable to leases in AASB 117: Leases and related interpretations. The standard addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from AASB 16 is that most operating leases will be accounted for on the statements of financial position for lessees. The Group is a lessee of certain premises which are currently classified as operating leases. AASB 16 provides a new provision for the accounting treatment of leases when the Group is the lessee, almost all leases should be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Short-term leases of less than twelve months and leases of low-value assets are exempt from the recognition obligation.

The new standard will therefore result in an increase in assets and financial liabilities in the consolidated statements of financial position. As for the financial performance impact in the consolidated statements of comprehensive income, straight-line depreciation expense on the right-of-use asset and the interest expenses on the lease liability are recognised and no rental expenses will be recognised. The combination of a straight-line depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to consolidated income statements in the initial years of the lease, and decreasing expenses during the latter part of the lease term.

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

The Group conducted preliminary assessment and estimated that the adoption of AASB 16 would result in recognition of lease assets and lease liabilities primarily arising from the leases of premises in Australian and China. The Group will continue to assess the impact in more details.

The Group has already commenced an assessment of the impact of other new standards, amendments to standards and interpretations, certain of which may be relevant to the Group's operations and may give rise to changes in accounting policies, changes in disclosures and remeasurement of certain items in the consolidated financial statements.

(b) Principles of Consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 30 June 2018. A subsidiary is an entity, directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

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

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

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

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

(c) Foreign Currency Transactions and Balances

Functional and presentation currency

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

Transaction and balances

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

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

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

Group companies

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

(i) assets and liabilities for each consolidated statement of financial position presented are translated at the exchange rate ruling at the date of that consolidated statement of financial position;

(ii) income and expenses for each consolidated income statement are translated at the average exchange rate during the period covered by the consolidated income statement;

(iii) all resulting exchange differences are recognised as a separate component of equity; and

(iv) on the disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, all of the exchange differences

(c) Foreign Currency Transactions and Balances (CONTINUED)

Group companies (continued)

accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to profit or loss.

(d) Revenue and Other Income

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services rendered in the ordinary course of the Group's activities. Revenue is shown net of goods and services tax (GST) / value-added tax (VAT), returns, rebates and discounts, allowances for credit and other revenue reducing factors after eliminating sales within the Group. All revenue is stated net of the amount of goods and services tax (GST). Revenue is recognised when the amount can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria for each of the activities have been met. Estimates are based on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

(i) Sales of goods

Revenue from the sale of goods is recognised at the point of delivery (delivery location as specified in the contract) as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

(ii) Services fee

Revenue from the design, engineering and project implementation services is recognised when services are rendered.

(iii) Interest revenue

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets is the rate inherent in the instrument.

(iv) Research and development grants

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

(e) Income Tax

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

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

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

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

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

Investment allowances and similar tax incentives

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

(f) Impairment of Assets

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

(g) Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in non-current assets. The finance costs of such leases are charged to the consolidated income statement so as to provide a constant periodic rate of charge over the lease terms.

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

(h) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of 3 months or less.

(i) Trade and Other Receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade and other receivables are generally due for settlement within 60 days (except Chinese transactions). Chinese entities generally have trading terms between 60 - 150 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account

(i) Trade and Other Receivables (CONTINUED)

(provision for impairment of trade and other receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

(j) Inventories

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

(k) Property, Plant and Equipment

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

(k) Property, Plant and Equipment (CONTINUED)

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

Depreciation

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

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

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

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

(l) Intangibles

Phoslock license patents and trademarks

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

Research and development

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

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

(m) Financial Instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified “at fair value through profit or loss”, in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method, or cost.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint ventures as being subject to the requirements of accounting standards specifically applicable to financial instruments.

Financial assets at fair value through profit or loss

Financial assets are classified as “fair value through profit or loss” when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are

(m) Financial Instruments (CONTINUED)

Financial assets at fair value through profit or loss (continued)

designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying amount being included in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

Financial liabilities

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

(n) Impairment of Financial Assets

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

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

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

(n) Impairment of Financial Assets (CONTINUED)

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

(o) Derecognition

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

(p) Trade and Other Payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(q) Provisions

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

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

(r) Financial Liabilities

Financial liabilities are initially recognised at fair value, net of transaction costs incurred. Financial liabilities are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(s) Employee Benefits

Short-term obligations

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

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

Other long-term obligations

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

(s) Employee Benefits (CONTINUED)

Other long-term obligations (continued)
changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

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

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

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

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

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2018

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

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

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

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

(u) Contributed Equity

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

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

(v) Earnings Per Share

Basic earnings per share

Basic earnings per share is calculated by dividing:

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

Diluted earnings per share

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

(v) Earnings Per Share (CONTINUED)

Diluted earnings per share (continued)

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

(w) Parent Entity Financial Information

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

Investments in subsidiaries and associates

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

Tax consolidation

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

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

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2018

(w) Parent Entity Financial Information (CONTINUED)

Tax consolidation (continued)

Phoslock Environmental Technologies Limited (formerly known as Phoslock Water Solutions Limited) notified the Australian Taxation Office that it had formed an income tax consolidated group to apply from 1 July 2005.

Financial guarantees

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

Share-based payments

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

(x) Segment Reporting

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

(y) Critical Accounting Estimates and Judgements

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

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2018

(y) Critical Accounting Estimates and Judgements (CONTINUED)

Income taxes

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

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

Estimation of useful lives of assets

The Group determines the estimated useful lives and related depreciation and amortisation charges for property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where useful lives are less than previously estimated.

Provision for impairment of receivables

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

Long service leave provision

As per note 1, the liability for long services leave is recognized and measured at the present value of estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through inflation have been taken into account.

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2018

(y) Critical Accounting Estimates and Judgements (CONTINUED)

Impairment

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

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2018

NOTE 2 REVENUE

	2018 $	2017 $
Sales revenue		
- Sale of goods	15,427,079	3,825,406
- Provision of service	280,021	-
	15,707,100	3,825,406
Other revenue		
- Interest received	18,036	1,495
- Research & development grants	361,980	377,906
- Other income	167,383	22,500
	547,399	401,901
Total sales and other revenue	**16,254,499**	**4,227,307**

NOTE 3 EXPENSES FOR THE PERIOD

	2018 $	2017 $
Expenses		
- Convertible notes issued to related parties	-	97,505
- Interest on related party loans	50,960	116,938
- Other interest	31,674	2,560
- Bank charges	-	8,219
Total finance costs	**82,634**	**225,222**
Rental expense on leased premise	312,817	188,070
Employee benefit expense (excluding options expenses)	2,612,148	1,661,118
Superannuation contributions	159,541	164,642
Depreciation and amortisation	45,605	56,679

For detailed discussion on significant expenses items, please refer to the Director’s Report.

NOTE 4 INCOME TAX EXPENSE

	2018 $	2017 $
(a) Income tax expense		
- Current – Australia*	-	-
- Current – China	892,661	-
- Current – elsewhere	521	-
- Deferred tax	(87,629)	-
	805,553	-

* No provision for Australia profit tax has been made for the year ended 30 June 2018 as the tax consolidated group in Australia currently has brought forward tax losses.

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2018

NOTE 4 INCOME TAX EXPENSE (CONTINUED)

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

	2018 $	Restated 2017 $
Profit/(loss) before income tax	913,580	(3,387,396)
Income tax using domestic tax rate 27.5% (2017: 27.5%)	251,235	(931,534)
Tax effect of		
- Income not subject to tax	(99,545)	(103,125)
- Expense not deductible for tax	259,368	236,500
- Share options expenses	499,391	440,907
- Tax loss not recognised as deferred tax assets	(102,418)	223,627
- Foreign subsidiaries	(2,478)	133,625
	805,553	-
Weighted average effective tax rate	14.6%	27.5%

	2018 $	2017 $
(c) Unrecognized deferred tax assets		
Accumulated losses	30,051,202	30,638,632
Potential tax losses	8,264,081	8,425,649
Temporary differences – accruals and provisions	451,915	402,865
Potential tax benefit	124,277	110,788
Total deferred tax assets not bought to account	8,264,081	8,425,679

NOTE 5 OTHER LIABILITIES

	2018 $	2017 $
Current liabilities		
Amount received in advance from customers	-	89,830
Non-current liabilities		
Investment incentive received in advance from Chinese government	37,800	-

**Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2018**

NOTE 6 KEY MANAGEMENT PERSONNEL COMPENSATION

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

	2018 $	Restated 2017 $
Short term employee benefits	1,314,659	993,416
Post-employment benefits (contributions to superannuation, Including salary sacrifice	182,921	126,165
Long term benefits	79,344	18,192
Equity compensation benefits	1,447,839	82,504
Total compensation	**3,024,763**	**1,220,277**

NOTE 7 AUDITORS REMUNERATION

	2018 $	2017 $
Audit and audit-related services (KPMG)		
- Audit and review of financial report – KPMG Australia	81,000	-
- Overseas audit – KPMG China	81,400	-
Audit and audit-related services (W.W.Vick & Co)		
- Audit and review of financial report	-	33,500
- Overseas audit – China	-	17,500
Total audit and audit-related services	**162,400**	**51,000**
Other services (auditor of the Group – KPMG China)		
- In relation to other assurance, taxation and due diligence services	65,324	-
Total other services	**65,324**	-
Total auditor's remuneration	**227,724**	**51,000**

* There are no other services provided by W.W.Vick & Co

**Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2018**

NOTE 8 EARNINGS PER SHARE

		2018 $	Restated 2017 $
(a)	**Reconciliation of earnings to profit and loss**		
-	Profit/(Loss)	108,026	(3,387,396)
-	(Profit) attributable to non-controlling equity interest	(106,722)	(44,682)
-	Earnings used to calculate basic EPS	1,304	(3,432,078)
	Earnings used in the calculation of dilutive EPS	**1,304**	**(3,432,078)**
(b)	**Weighted average number of ordinary shares outstanding during the year used in calculating**	No.	No.
-	Weighted average number of shares	464,648,774	414,261,968
-	Weighted average number of options outstanding	-	-
	Weighted average number of ordinary shares outstanding during the year used in the calculation of dilutive EPS	**464,648,774**	**414,261,968**

As at reporting date, conditions which would result in the exercise of the options and issue of shares had not been met.

NOTE 9 CASH AND CASH EQUIVALENTS

	2018 $	2017 $
Cash at bank and on hand	4,324,053	1,234,243
	4,324,053	**1,234,243**

(a) Financial assets

Westpac Banking Corporation holds security over a cash deposit account (rental guarantee) of $25,000 (2017: $25,000) with effective interest rate of 2.3% (2017: 3.0%).

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2018

NOTE 10 TRADE AND OTHER RECEIVABLES

	2018 $	2017 $
Current		
Trade receivables	11,116,617	797,751
Less provisions for impairment	-	-
	11,116,617	797,751
Grant income receivables	375,000	375,000
	375,000	375,000
	11,491,617	**1,172,751**

(a) Provision for impairment of receivables

Current trade receivables (except China) are generally on 30 - 60 day terms. Chinese entities have general trading terms between 60 - 150 days. Non-current trade and other receivables are assessed for recoverability based on the underlying terms of the contract. A provision for impairment is recognised when there is objective evidence that an individual trade or term receivable is impaired.

There has been no movement to the provision for impairment of receivables during the year (2017: $ 0).

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

	Gross Amount $	Past Due and Impaired $	Past Due but Not Impaired (Days Overdue) < 30 $	 31–60 $	 61–90 $	 90 $	Within Initial Trade Terms $
2018							
- Trade and other receivables	11,116,617	-	195,523	-	-	-	10,921,094
- Other receivables	375,000	-	-	-	-	-	375,000
Total	**11,491,617**	-	**195,523**	-	-	-	**11,296,094**
2017							
- Trade and other receivables	797,751	-	-	-	-	-	797,751
- Other receivables	375,000	-	-	-	-	-	375,000
Total	**1,172,751**	-	-	-	-	-	**1,172,751**

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2018

NOTE 11 INVENTORIES

	2018 $	2017 $
Current		
- Raw material (at cost)	276,555	-
- Finished goods (at cost)	1,496,342	897,336
	1,772,897	**897,336**

NOTE 12 PARENT ENTITY INFORMATION

	2018 $	Restated 2017 $
(a) The parent entity of the consolidated entity is Phoslock Environmental Technologies Limited (formerly known as Phoslock Water Solutions Limited)		
Current assets	19,066	2,103
Non-current assets	19,546,672	10,728,387
Total assets	**19,565,738**	**10,730,490**
Term liabilities	-	-
Total liabilities	-	-
Net assets	**19,565,738**	**10,730,490**
Issued capital	51,298,783	41,551,112
Share based payment and options reserve	3,416,558	1,848,597
Accumulated losses	(35,149,603)	(32,669,219)
Total equity	**19,565,738**	**10,730,490**
Profit/(loss) after income tax	(2,728,388)	(1,698,545)
Other comprehensive income	-	-
Total comprehensive income/(loss)	**(2,728,388)**	**(1,698,545)**

During FY2017-2018, 22,100,000 options were exercised and converted into shares.

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2018

NOTE 12 PARENT ENTITY INFORMATION (CONTINUED)

(b) Controlled entities of the parent entity	Country of Incorporation	Percentage owned (%) 2018	2017
Phoslock Pty Ltd	Australia	100	100
Phoslock Technologies Pty Ltd	Australia	100	100
Phoslock International Pty Ltd	Australia	100	100
Phoslock Water Solutions (UK) Limited	United Kingdom	100	100
Phoslock Europe GmbH	Switzerland	60	60
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	-

* Beijing Ecosystime Environmental Science and Technology Co., Ltd was incorporated on 13 March 2018

NOTE 13 PROPERTY, PLANT AND EQUIPMENT

	2018 $	2017 $
Property, plant and equipment, at cost	1,927,725	1,342,631
Less accumulated depreciation	(453,702)	(304,538)
	1,474,023	**1,038,093**

	Motor Vehicles $	Leasehold Improvement $	Plant and Equipment $	Total $
Balance at 1 July 2017	**14,500**	-	**1,023,593**	**1,038,093**
Additions	-	182,395	402,699	585,094
Depreciation expense*	(8,499)	(1,304)	(139,361)	(149,164)
Balance at 30 June 2018	**6,001**	**181,091**	**1,286,931**	**1,474,023**
Balance at 1 July 2016	-	-	**56,687**	**56,687**
Additions	25,455	-	1,012,630	1,038,085
Depreciation	(10,955)	-	(45,724)	(56,679)
Balance at 30 June 2017	**14,500**	-	**1,023,593**	**1,038,093**

* A$103,599 of the depreciation expense is recorded in cost of sales (2017: Nil) in relation to the Changxing factory

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2018

NOTE 14 INTANGIBLE ASSETS

	2018 $	2017 $
Trademarks and licences		
Cost	4,159,660	4,159,660
Accumulated amortisation and impairment	(4,159,660)	(4,159,660)
Net carrying value	-	-
Development costs		
Cost	323,740	323,740
Accumulated amortisation and impairment	(323,740)	(323,740)
Net carrying value	-	-
Patent		
Cost	77,977	-
Accumulated amortisation and impairment	(476)	-
Net carrying amount	**77,501**	-
Total intangibles assets	**77,501**	-

Impairment of Trademarks & Licences and Development Costs as at 30 June 2018

In 2011, the directors resolved to impair the carrying value of Company's Intellectual Property ($2,092,554) based on value in use calculation. The Company's Intellectual Property is core to the Phoslock business. The directors believe that the carrying value of the Intellectual Property does not affect the Phoslock business and that nothing has changed to the length of protection afforded to the Company via its patents and trademarks.

NOTE 15 OTHER ASSETS

	2018 $	2017 $
Current		
- Prepayments	282,646	107,430
- VAT deposit guarantee	17,103	34,171
- VAT credit	239,173	-
- Other current assets	18,900	-
	557,822	**141,601**

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2018

NOTE 16 DEFERRED TAX ASSETS

	2018 $	2017 $
The balance comprises temporary differences attributable to:		
Accrued expenses	633,594	-
Tax losses	68,826	-
	702,420	-

NOTE 17 TRADE AND OTHER PAYABLES

	2018 $	2017 $
Current		
- Trade payables	4,409,440	281,438
- Sundry payables and accrued expenses	94,569	49,005
	4,504,009	**330,443**

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

NOTE 18 FINANCIAL LIABILITIES

	2018 $	2017 $
Current		
- Related party borrowings – loan (unsecured)	-	1,000,000
- Related party borrowings – debtor factoring (secured)	-	500,000
- Related party subordinated loan (unsecured)	310,022	292,241
	310,022	**1,792,241**

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2018

NOTE 19 PROVISIONS

	2018 $	2017 $
Current		
Employee entitlements		
Opening balance at 1 July	352,134	390,330
Additions provisions	162,855	27,465
Amounts used	(151,237)	(65,661)
Balance at 30 June	**363,752**	**352,134**
Non-current		
Employee entitlements		
Opening balance at 1 July	8,707	7,572
Additions provisions	-	1,135
Amounts used	(4,497)	-
Balance at 30 June	**4,210**	**8,707**
Analysis of total provision		
Current	363,752	352,134
Non-current	4,210	8,707
	367,962	**360,841**

Current employee entitlements

During FY2017-2018, the Company undertook annual leave buy-backs from employees. Each employee with more than 200 hours of accrued leave were entitled to sell-back 80 hours of annual leave at each buy back. The Board approved the buy-backs to reduce the amount of accrued employee entitlements.

Non-current employee entitlements

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

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2018

NOTE 20 ISSUED CAPITAL

	2018 $	2017 $
481,813,801 fully paid ordinary shares (2017: 413,084,403)	51,298,783	41,551,112
	51,298,783	**41,551,112**

(a) Ordinary shares

	2018 No.	2018 $	2018 No.	2017 $
At the beginning of the year	**413,084,403**	**41,551,112**	**362,953,968**	**38,465,112**
Shares issued during the year				
- 18 Jul 2016, conversion of options	-	-	5,000,000	265,000
- 9 May 2017, conversion of options	-	-	1,000,000	71,000
- 15 May 2017, issue of shares under a placement	-	-	15,000,000	1,050,000
- 31 May 2017, issue of shares under a placement	-	-	15,000,000	1,050,000
- 31 May 2017, shares issued under conversion of $0.65m convertible notes	-	-	14,130,435	650,000
- 7 Jul 2017, conversion of options	1,000,000	71,000	-	-
- 24 Jul 2017, conversion of options	1,000,000	90,000	-	-
- 1 Aug 2017, conversion of options	650,000	58,500	-	-
- 9 Aug 2017, conversion of options	1,000,000	90,000	-	-
- 21 Aug 2017, conversion of options	1,500,000	135,000	-	-
- 23 Aug 2017, conversion of options	2,000,000	180,000	-	-
- 25 Aug 2017, conversion of options	5,000,000	300,000	-	-
- 26 Sept 2017, conversion of options	7,450,000	670,500	-	-
- 26 Sept 2017, issue of shares under a Placement	22,960,071	4,018,012	-	-
- 20 Oct 2017 issue of shares under Share Purchase Plan	20,169,327	3,529,597	-	-
- 30 Nov 2017, issue of shares under a Placement	3,500,000	612,500	-	-
- 12 Jan 2018, conversion of options	1,000,000	71,000	-	-
- 2 Feb 2018, conversion of options	1,500,000	106,500	-	-
Transaction costs arising from Share Placement	-	(184,938)	-	-
Balances at the end of the year	**481,813,801**	**51,298,783**	**413,084,403**	**41,551,112**

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

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

NOTE 20 ISSUED CAPITAL (CONTINUED)

(b) Capital management

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

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

There are no externally imposed capital requirements.

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

Group equity increased during the year by $9,747,671 from a share placement ($4,445,574); share purchase plan ($3,529,597) and conversion of unlisted options ($1,772,500). The gearing ratio for the year ended 30 June 2018 and 30 June 2017 are as follows:

	Note	2018 $	2017 $
Total borrowings (including trade creditors)	17, 18	4,814,031	2,122,684
Less cash and cash equivalents	9	(4,324,053)	(1,234,243)
Net debt		489,978	888,441
Total equity		14,056,894	1,935,669
Total assets		20,425,333	4,509,024
Gearing ratio		3.4%	31.5%

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2018

NOTE 21 RESERVES

(a) Foreign currency translation reserve

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

(b) Option reserve

The option reserve records items recognised as expenses on valuation of employee share options and options issued to third parties. 35,000,000 options were issued to employees and consultants during FY2017 plus 30,000,000 options were issued during FY2017 to China Environmental Corporation (Australia) Pty Ltd as part of the terms of a Share Placement. An option expense of $1,815,966 (FY2017(Restated): $1,600,591) was recorded for FY2018 for share option expenses issued to employees. This amount was also credited to the Option Reserve (see Consolidated Statement of Changes in Equity). $248,005 was transferred from the Option Reserve to Retained Earnings for options which had expired or exercised (FY2017: $29,385).

NOTE 22 COMMITMENTS

	2018 $	2017 $
(a) Finance lease commitments		
The Group does not have any finance lease commitment	-	-
(b) Operating lease commitments		
Non-cancellable operating lease		
Payable – minimum lease payments		
- not later 12 months	249,980	217,669
- between 12 months and 5 years	404,581	493,827
- greater than 5 years	-	-
	654,561	**711,496**

Non-cancellable leases relate to the lease of

- Sydney office premise expiring 30 September 2019. Rent is payable monthly in advance.
- Beijing office premise expiring 31 December 2020. Rent is payable monthly in advance.
- Changxing factory premise expiring 28 February 2022. Rent is payable annual in advance. Some rent is rebatable from the Changxing local government if certain sales revenue targets are met.

NOTE 23 SEGMENT REPORTING

Segment Information

Identification of reportable segments

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

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

Types of products and services by segment

The sale of Phoslock granules and application services and lake restoration consulting services is the main business of the Group. These products and services are provided on a geographical basis with offices and representation in each of the Company's four key geographical areas - Australia/NZ, Europe/UK, US/Canada/Brazil and China.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

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

Inter-segment transactions

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

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

NOTE 23 SEGMENT REPORTING (CONTINUED)

Segment Information (continued)

Basis of accounting for purposes of reporting by operating segments (continued)

Inter-segment transactions (continued)

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

Segment assets

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

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

Segment liabilities

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

Unallocated items

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

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

NOTE 23 SEGMENT REPORTING (CONTINUED)

(a) Segment performance

Twelve months ended 30 June 2018	Australia/NZ	Europe/UK	US / Canada Brazil	China	Sub-Total	Eliminations	Total
Revenue							
External sales	324,822	1,707,355	2,311,084	11,363,839	15,707,100	-	15,707,100
Inter-segment sales	2,093,518	59,379	-	2,014,588	4,167,485	(4,167,485)	-
Other revenue	260,571	1,563	127,033	175,950	565,117	(17,718)	547,399
Total segment revenue	2,678,911	1,768,297	2,438,117	13,554,377	20,439,702	(4,185,203)	16,254,499
Unallocated items							-
Total group revenue							16,254,499
Segment profit before tax	421,731	276,671	383,823	3,214,321	4,296,546	(552,700)	3,743,846
Unallocated items:							
- corporate charges							(930,140)
- finance costs							(84,161)
- option costs							(1,815,966)
- tax expenses							(805,553)
Profit before income tax from continuing operations							108,026

Twelve months ended 30 June 2017	Australia/NZ	Europe/UK	US / Canada Brazil	China	Sub-Total	Eliminations	Total
Revenue							
External sales	101,851	623,033	2,893,103	207,419	3,825,406	-	3,825,406
Inter-segment sales	328,538	-	-	-	328,538	(328,538)	-
Other revenue	377,906	-	-	-	377,906	-	377,906
Total segment revenue	808,295	623,033	2,893,103	207,419	4,531,850	(328,538)	4,203,312
Unallocated interest and other income							23,995
Total group revenue							4,227,307
Segment profit/(loss) before tax	(337,135)	26,708	582,586	(1,158,032)	(885,873)	-	(885,873)
Unallocated items:							
- corporate charges							(675,710)
- finance costs							(225,222)
- option costs							(1,600,591)
Loss before income tax from continuing operations							(3,387,396)

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2018

NOTE 23 SEGMENT REPORTING (CONTINUED)

(b) Segment assets

	Australia/NZ	Europe/UK	US / Canada Brazil	China	Sub-Total	Eliminations	Total
30 June 2018							
Segment assets	13,125,398	43,766	-	17,415,750	30,584,914	(10,159,581)	20,425,333
Unallocated assets							-
Total group assets							20,425,333
Unallocated assets							
30 June 2017							
Segment assets	5,724,549	251,459	-	2,423,493	8,399,501	(3,890,477)	4,509,024
							-
Total group assets							4,509,024

(c) Segment liabilities

	Australia/NZ	Europe/UK	US / Canada Brazil	China	Sub-Total	Eliminations	Total
30 June 2018							
Segment liabilities	113,338	675,518	-	6,567,981	7,356,837	(988,398)	6,368,439
Unallocated liabilities							-
Total group liabilities							6,368,439
30 June 2017							
Segment liabilities	2,255,608	329,356	-	11,167	2,596,132	(22,776)	2,573,356
Unallocated liabilities							-
Total group liabilities							2,573,356

(d) Major customers

The Group has a number of customers to which it provides both products and services. The Group's largest external customer accounts for 63.6% of external revenue (2017: 66%). The five largest customers were attributable 90.0% to the Group revenues during the year.

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2018

NOTE 24 CASH FLOW INFORMATION

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

	2018 $	Restated 2017 $
Net profit/(loss) after income tax	**108,026**	**(3,387,396)**
Non cash flow to profit		
Depreciation and amortization	149,640	56.679
Shares and option expense	1,815,966	1,600,591
Changes in assets/liabilities		
(Increase)/decrease in trade and other receivables	(10,000,655)	(480,642)
(Increase)/decrease in prepayments and other assets	(416,221)	(43,711)
(Increase)/decrease in inventories	(875,561)	(398,506)
(Increase)/decrease in deferred tax assets	(702,420)	-
Increase/(decrease) in trade payables and accruals	4,128,002	(267,314)
Increase/(decrease) in other liabilities	(34,249)	-
Increase/(decrease) in provisions	52,685	(37,061)
Increase/(decrease) in tax payables	1,148,646	-
Cash flow used in operating activities	**(4,626,141)**	**(2,957,360)**

NOTE 25 SHARE-BASED PAYMENTS

At 30 June 2018 the Group has the following share-based payment scheme:

Phoslock Environmental Technologies Limited Share Options Plan

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

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

NOTE 25 SHARE-BASED PAYMENTS (CONTINUED)

All options granted are for ordinary shares in Phoslock Environmental Technologies Limited (formerly known as Phoslock Water Solutions Limited) which confer a right of one ordinary share for every option held. The options hold no voting or dividend rights and are not transferable.

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

(a) Share option plan

The key terms and conditions related to the grants under this plan are as follows; all options are to be settled by the physical delivery of shares.

Grant date	No. of instruments	Vesting conditions	Contractual life of options
Options granted to key management personnel			
On 16 June 2017	28,000,000	- Group sales achieved $25 million or NPBT of $4 million for period from 10 April 17 to 30 June 19 - Remain employed beyond the vesting date	2.5 years
Options granted to employees			
On 16 June 2017	1,100,000	Same as above	2.5 years
On 17 July 2017	1,000,000	Same as above	2.5 years
On 1 September 2017	200,000	Same as above	2.5 years
On 10 October 2017	150,000	Same as above	2.5 years
Options granted to shareholders			
On 16 June 2017	30,000,000	- Group sales achieved $25 million or NPBT of $4 million for period from 10 April 17 to 30 June 19	2.5 years
Options granted to consultants			
On 16 June 2017	3,150,000	- Group sales achieved $25 million or NPBT of $4 million for period from 10 April 17 to 30 June 19	2.5 years
	500,000	- Remain employed beyond the vesting date	2.5 years
	250,000	- Consultant needs to purchase and pays US$3,000,000 for Phoslock products for same period as above	2.5 years
	250,000	- Consultant needs to purchase and pays US$3,000,000 for Phoslock products for same period as above	2.5 years
On 6 November 2017	400,000	- Group sales achieved $25 million or NPBT of $4 million for period from 10 April 17 to 30 June 19 - Remain employed beyond the vesting date	2.5 years
Total share options	**65,000,000**		

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2018

NOTE 25 SHARE-BASED PAYMENTS (CONTINUED)

(b) Measurement of fair values

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

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

	2018	2017
Grant date on 16 June 2017		
Fair value at grant date		$0.1088
Share price at grant date		$0.1750
Exercise price		$0.1050
Expected volatility		81.81%
Expected life		811 days
Risk-free interest rate		1.72%
Grant date on 17 July 2017		
Fair value at grant date	$0.1299	-
Share price at grant date	$0.2000	-
Exercise price	$0.1050	-
Expected volatility	81.89%	-
Expected life	713 days	-
Risk-free interest rate	1.86%	-
Grant date on 1 September 2017		
Fair value at grant date	$0.1076	-
Share price at grant date	$0.1800	-
Exercise price	$0.1050	-
Expected volatility	76.31%	-
Expected life	677 days	-
Risk-free interest rate	1.87%	-
Grant date on 10 October 2017		
Fair value at grant date	$0.1136	-
Share price at grant date	$0.1900	-
Exercise price	$0.1050	-
Expected volatility	73.69%	-
Expected life	628 days	-
Risk-free interest rate	1.96%	-
Grant date on 6 November 2017		
Fair value at grant date	$0.1248	-
Share price at grant date	$0.2050	-
Exercise price	$0.1050	-
Expected volatility	72.00%	-
Expected life	601 days	-
Risk-free interest rate	1.78%	-

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2018

NOTE 25 SHARE-BASED PAYMENTS (CONTINUED)

(c) Reconciliation of outstanding share options

The following is a table reconciling the movements of share options during the year ended 30 June 2018:

	2018		2017	
	Number of options No.	Weighted Average Exercise Price $	Number of options No.	Weighted Average Exercise Price $
Outstanding at 1 July 2017	87,100,000	0.100	28,100,000	0.078
Granted	-	-	65,000,000	0.082
Vesting conditions not met / lapsed	-	-	-	-
Exercised	(22,100,000)	0.080	(6,000,000)	0.059
Vesting options not exercised	-	-	-	-
Outstanding at 30 June 2018	**65,000,000**	**0.105**	**87,100,000**	**0.100**
Exercisable at year end	-	-	8,500,000	0.083

The options outstanding at 30 June 2018 had a weighted average exercise price of $0.105.

Notes to the Consolidated Financial Statements
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NOTE 26 RELATED PARTIES

(a) Key management personnel compensation

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

	2018 $	2017 $
Transaction with related parties:		
(b) Relatives of specified executives		
Services provided on a normal commercial basis by parties related to specified executives:		
Margaret Schuitema – part time employment (1)	88,162	69,230
Yolanda Winks – part time employment (2)	37,115	34,616
Ben Schuitema – part time employment (1)	6,220	31,495
Martin Schuitema – part time employment (1)	9,000	39,434
(c) Transactions with related parties		
Link Traders (Aust) Pty Ltd – rental costs for Sydney office (3)	100,233	97,138
Link Traders (Aust) Pty Ltd – interest on loans (3) & (5)	84,161	212,618
Sail Ahead Pty Ltd – interest on loans (4) & (6)	-	1,825
Serenety Holdings Pty ltd – investor relations (7)	228,006	54,000
Contribution to self-managed superannuation funds managed by related parties (1), (3) & (8)	64,680	15,724
(d) Transactions with other related parties		
Bentophos GmbH – purchase of goods & services	93,602	15,724

Bentophos GmbH is a major business partner and currently holds 40% interest in subsidiary Phoslock Europe GmbH

(e) Balance with related parties

	2018 $	2017 $
Link Traders (Aust) Pty Ltd – Loan to Phoslock Pty Ltd (3)	-	1,500,000
Bentophos GmbH – subordinated loan to Phoslock Europe GmbH	310,022	292,241

(1) related party of Robert Schuitema
(2) related party of Andrew Winks
(3) Laurence Freedman is a director of this Company
(4) Robert Schuitema is a director of this Company
(5) interest paid on loans, debt factoring to Phoslock Pty Ltd (interest rate 15%-20%) and convertible notes to Phoslock Environmental Technologies Ltd (interest rate 15%)
(6) interest paid on loans to Phoslock Pty Ltd (interest rate 20%) and convertible notes to Phoslock Environmental Technologies Ltd (interest rate 15%)
(7) related party of Laurence Freedman
(8) related party of Brenda Shanahan

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2018

NOTE 27 EVENTS SUBSEQUENT TO BALANCE DATE

(1) On 4 July 2018 the Company announced that it had raised $5.5 million from a share placement to institutional and sophisticated investors. This transaction was settled on 12 July 2018 with the issue of 15.3 million new shares.

(2) On 17 August 2018 shareholders approved the change of the Company's name to Phoslock Environmental Technologies Limited. Australian Securities and Investments Commission (ACIS) approved the name change on 21 August 2018.

(3) On 21 August 2018 the Company's share code on the Australian Securities Exchange changed from PHK to PET.

NOTE 28 FINANCIAL RISK MANAGEMENT

(a) Financial risk management policies

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

(i) Financial risk exposure management

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

Interest rate risk

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

NOTE 28 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial risk management policies (continued)

(i) Financial risk exposure management (continued)

Foreign currency risk

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

Liquidity risk

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

Credit risk

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

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

(c) Financial instruments

(i) Financial instrument composition and maturity analysis

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

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2018

NOTE 28 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Financial instruments (continued)

(i) Financial instrument composition and maturity analysis (continued)

	Weighted Average Effective Interest rate	Floating Interest rate	Fixed Interest Rate Maturing			Non- interest bearing	Total
			Within 1 year	1 to 5 years	Over 5 Years		
2018	%	$	$	$	$	$	$
Financial Assets							
Cash and cash equivalents	1.1%	4,324,053	-	-	-	-	4,324,053
Long term deposits	2.3%	25,000					25,000
Trade and other receivables	0%	-	-	-	-	11,491,617	11,491,617
Total Financial Assets		4,349,053	-	-	-	11,491,617	15,840,670

	Weighted Average Effective Interest rate	Floating Interest rate	Fixed Interest Rate Maturing			Non- interest bearing	Total
			Within 1 year	1 to 5 years	Over 5 Years		
2017	%	$	$	$	$	$	$
Financial Assets							
Cash and cash equivalents	1.5%	1,234,243	-	-	-	-	1,234,243
Long term deposits	3.0%	25,000	-	-	-	-	25,000
Trade and other receivables	0%	-	-	-	-	1,172,751	1,172,751
Total Financial Assets		1,259,243	-	-	-	1,172,751	2,431,994

	Weighted Average Effective Interest rate	Floating Interest rate	Fixed Interest Rate Maturing			Non- interest bearing	Total
			Within 1 year	1 to 5 years	Over 5 Years		
2018	%	$	$	$	$	$	$
Financial Liabilities							
Trade and sundry payables	0%	-	-	-	-	4,504,009	4,504,009
Subordinated Loan	0%	-	-	-	-	310,022	310,022
Total Financial Liabilities		-	-	-	-	4,814,031	4,814,031

	Weighted Average Effective Interest rate	Floating Interest rate	Fixed Interest Rate Maturing			Non- interest bearing	Total
			Within 1 year	1 to 5 years	Over 5 Years		
2017	%	$	$	$	$	$	$
Financial Liabilities							
Trade and sundry payables	0%	-	-	-	-	330,443	330,443
Convertible Notes	15-18%	-	1,500,000	-	-	-	1,500,000
Subordinated Loan	0%	-	-	-	-	292,241	292,241
Total Financial Liabilities		-	1,500,000	-	-	622,684	2,122,684

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2018

NOTE 28 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Financial instruments (continued)

	2018 $	2017 $
Financial liabilities are expected to be paid as follows:		
- Less than 6 months	4,814,031	1,830,443
- 6 months to 1 year	-	-
- 1 – 5 years	-	292,241
	4,814,031	2,122,684

(ii) Net Fair Values

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

(iii) Sensitivity analysis

Interest rate risk and foreign currency risk

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

Interest Rate Sensitivity Analysis

As at 30 June 2018, the effect on profit and equity as a result of changes in the interest rate on cash and cash equivalents, with all other variables remaining constant would be as follows:

	2018 $	2017 $
Change in profit		
- Increase in interest rate by 1%	43,241	12,342
- Decrease in interest rate by 1%	(43,241)	(12,342)
Change in equity		
- Increase in interest rate by 1%	43,241	12,342
- Decrease in interest rate by 1%	(43,241)	(12,342)

NOTE 28 FINANCIAL RISK MANAGEMENT (CONTINUED)

Foreign Currency Risk and Sensitivity Analysis

As at 30 June 2018, the effect on profit and equity as a result of changes in the value of the Australian Dollar to Renminbi on RMB sales (72% of total sales); (5% in 2017) with all other variables remaining constant is as follows:

	2018 $	2017 $
Change in profit		
- Increase in foreign exchange rate by 10%	5,584,190	200,834
- Decrease in foreign exchange rate by 10%	(5,584,190)	(200,834)
Change in equity		
- Increase in foreign exchange rate by 10%	5,584,190	200,834
- Decrease in foreign exchange rate by 10%	(5,584,190)	(200,834)

As at 30 June 2018, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the US Dollar on USD sales (12% of total sales); (70% in 2017) with all other variables remaining constant is as follows:

	2018 $	2017 $
Change in profit		
- Increase in foreign exchange rate by 10%	137,490	200,834
- Decrease in foreign exchange rate by 10%	(137,490)	(200,834)
Change in equity		
- Increase in foreign exchange rate by 10%	137,490	200,834
- Decrease in foreign exchange rate by 10%	(137,490)	(200,834)

NOTE 28 FINANCIAL RISK MANAGEMENT (CONTINUED)

Foreign Currency Risk and Sensitivity Analysis (continued)

As at 30 June 2018, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the Euro on Euro sales (1% of total sales); (10% in 2017) with all other variables remaining constant is as follows:

	2018 $	2017 $
Change in profit		
- Increase in foreign exchange rate by 10%	11,101	25,630
- Decrease in foreign exchange rate by 10%	(11,101)	(25,630)
Change in equity		
- Increase in foreign exchange rate by 10%	11,101	25,630
- Decrease in foreign exchange rate by 10%	(11,101)	(25,630)

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

NOTE 29 CONTINGENT LIABILITIES

The group has no contingent liabilities. (2017: Nil)

**Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2018**

NOTE 30 RESTATEMENT

During the year ended 30 June 2017, the group issued a total of 65,000,000 performance options to shareholders, executives, employees and consultants. These performance options as disclosed in Note 25 include varying terms and conditions amongst the option recipients, including varying grant dates, start dates, vesting periods and vesting conditions. In addition, the Company issued 30,000,000 shares on 10 April 2017 to China Environmental Corporation (CEC) at a 30% discount to the market price.

The issue of the performance options and shares for consideration below fair value are within the scope of AASB 2 Share-based payments, as they are in recognition of the receipt of services (both identified employment services and unidentifiable services) and should be recognised as such. The comparatives have been restated to reflect the recognition of these transactions as share-based payments as detailed in the tables below.

There is no impact on the year ended 30 June 2016 as a result of this restatement as the issue of shares and performance options occurred in the financial year ended 30 June 2017.

	30 June 2017	Increase / (decrease)	(Restated) 30 June 2017
Statement of profit or loss and other comprehensive income (extract)			
Share based payments expense	35,808	1,564,783	1,600,591
Loss before income tax	**(1,822,613)**	**(1,564,783)**	**(3,387,396)**
Income tax expense	-	-	-
Loss for the year	**(1,822,613)**	**(1,564,783)**	**(3,387,396)**
Statement of financial position (extract)			
Share option reserve	283,814	1,564,783	1,848,597
Accumulated loss	(39,821,703)	(1,564,783)	(41,386,486)
Statement of changes in equity (extract)			
Share based payments reserve at beginning of year	277,391	-	277,391
Share based remuneration issued during the year	35,808	1,564,783	1,600,591
Transfer options reserve to accumulated losses	(29,385)	-	(29,385)
Share based payments reserve at end of year	**283,814**	**1,564,783**	**1,848,597**
EPS – basic	(0.50)		(0.83)
EPS – diluted	(0.46)		(0.83)

There is no impact on the Statement of cash flows for the year ended 30 June 2017

Director's Declaration

In the Directors' opinion:

1. the consolidated financial statements and notes, as set out on pages 22 to 76, and the remuneration report on pages 13 to 18 of the directors' report, are in accordance with the *Corporations Act 2001* including:
   (a) giving a true and fair view of the financial position as at 30 June 2018 and of the performance for the financial year ended on that date of the Group; and
   (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

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

Note 1 confirms that the consolidated financial statements is in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Chief Executive and Chief Financial Officer have given the declarations required by section 295A of the *Corporations Act 2001* to the Directors.

The declaration is made in accordance with a resolution of the Board of Directors.

Mr Robert Schuitema
Managing Director

Dated this 27th day of August 2018
Sydney

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Independent Auditor's Report

To the shareholders of Phoslock Environmental Technologies Limited, formerly known as Phoslock Water Solutions Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Phoslock Environmental Technologies Limited, formerly known as Phoslock Water Solutions Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group***'s financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2018
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

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

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

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

Emphasis of matter - Restatement of comparative balances

We draw attention to Note 30 to the financial statements, which states that amounts reported in the previously issued 30 June 2017 Financial Report have been restated and disclosed as comparatives in this Financial Report. The amounts have been restated due to the identification of errors in accounting in the previously issued 30 June 2017 Financial Report. Our opinion is not modified in respect of this matter.

The financial report of Phoslock Environmental Technologies Limited, formerly known as Phoslock Water Solutions Limited for the year ended 30 June 2017 was audited by another auditor who issued an unmodified opinion on that financial report on 25 August 2017.

Key Audit Matters

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

- Share-based payments
- Revenue recognition

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Share-based payments	
Refer to Note 25 to the Financial Report ($1,815,996 AUD)	
The key audit matter	**How the matter was addressed in our audit**
In our first year as auditors, we focused on share-based payments remuneration expense as a key audit matter due to the complexity of accounting for the performance based share option plan and resulting risk of interpretational differences against principles based criteria contained in accounting standards. The share option plan introduced by the Group and approved by the shareholders on 16 June 2017 granted 65,000,000 options to various shareholders, executives, employees and consultants, each with individual varying terms and conditions. These conditions necessitated senior team member involvement in assessing complex judgements made by the Group such as grant date, performance start	Our procedures included: • Reading the terms of the share option plan and evaluating the appropriateness of the accounting treatment under criteria contained in accounting standard AASB 2 *Share-based payments*. We focused on the Group's interpretation of grant date, performance start date, vesting dates and vesting conditions. • Checking share options granted in 2017 to underlying documentation including employee option certificates and General Meeting minutes. • Involving our valuation specialists in assessing the key assumptions used in the valuation model, including the risk free rate, relevant share prices of the Company and volatility rates reflecting likely share price movements over the life of the option. We compared these to available market data of the

date, vesting date, vesting conditions, and achievement of performance hurdles for each individual option recipient. We also focused on other key inputs into the valuation model used by the Group to determine the grant date fair value such as risk free rate, relevant share prices and volatility rates. We involved valuation specialists and accounting specialists to supplement our senior audit team members in assessing this key audit matter.	Company and available comparable companies. • Involving our accounting specialists in assessing the Group's judgements for grant date, performance start date, vesting date and vesting conditions in accordance with the accounting standards by identifying key terms and conditions from the provisions of the share certificates and comparing them to criteria such as the employee's start date with the Company and current service records. • We evaluated the non-market performance hurdles contained within the share option plan for consistency with the Group's current year performance. • Recalculating current year share-based compensation expense for a sample of employees using underlying offer letters, including relevant terms and conditions, and third party valuation reports obtained by the Group. • Assessing the Group's disclosures as required by AASB 2 for share-based payments, reflect underlying agreements as tested by us above and our knowledge of the share based payment arrangement.

Revenue recognition

Refer to Note 2 to the Financial Report ($15,700,100 AUD)

The key audit matter	**How the matter was addressed in our audit**
We focused on revenue recognition as a key audit matter due to the significant audit effort required to test the Group's revenue arising from: • the volume of sales across international locations; and • the significance of revenue to the financial statements. Our audit attention focused on revenue recognition from the largest revenue stream being revenue from the sale of goods (98% of total revenue).	Our procedures included: • We evaluated the Group's revenue recognition accounting policy against the requirements of the accounting standards and our knowledge of the nature of goods sold. • For each significant international location, we selected a sample of revenue transactions from the sale of goods records. We checked these transactions to underlying documentation including customer contracts, invoices, proof of delivery and cash receipts from customers. • We selected a statistical sample of revenue transactions from the sale of goods in the months of June 2018 and July 2018. We compared to underlying records to check the revenue recognition in the period the goods were delivered.

Other Information

Other Information is financial and non-financial information in Phoslock Environmental Technologies Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report and Remuneration Report. The Chairman's Report, Managing Director's Report and Shareholder Information are expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Phoslock Environmental Technologies Limited, formerly known as Phoslock Water Solutions Limited for the year ended 30 June 2018, complies with *Section 300A* of the *Corporations Act 2001*.

Emphasis of matter – restatement of comparative balances

We draw attention to page 15 to the Remuneration Report, which states that amounts reported in the previously issued 30 June 2017 Remuneration Report have been restated and disclosed as comparatives in this Remuneration Report. The amounts have been restated due to the identification of errors in accounting in the previously issued 30 June 2017 Remuneration Report. Our opinion is not modified in respect of this matter.

The Remuneration Report of Phoslock Water Solutions Limited for the year ended 30 June 2017 was audited by another auditor who issued an unmodified opinion on that Remuneration Report on 25 August 2017.

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 13 to 18 of the Directors' report for the year ended 30 June 2018.

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

Sarah Cain

Partner

Sydney

27 August 2018