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

Phoslock Environmental Technologies

Appendix 4D

Half Year Report

For the Six Months Ended 30 June 2019

Previous Reporting Period: 1 July 2018 to 31 December 2018

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

The condensed financial statements for 30 June 2019 are for a six months period.

The comparison period is for a six months period – 1 July 2018 to 31 December 2018.

Results for announcement to the market:	6 months ended 30 June 19 A$	6 months ended 31 December 18 A$
Revenues from ordinary activities	9,802,611	8,985,878
Net profit before tax (before options expenses)	1,708,998	1,638,784
Net profit/(loss) before tax (NPBT)	1,708,998	(143,040)
Net profit/(loss) after tax (NPAT)	1,006,732	(668,840)

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

Detailed discussion on results contained in Directors' Report

NTA Backing	Current Period	Previous Period
Net tangible asset backing per ordinary shares (cents per share)	4.95	4.51

Mr Robert Schuitema

Company Secretary

Dated the 22nd day of August 2019

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

Interim Financial Report

For the Six Months Ended 30 June 2019

INDEX

DIRECTORS' REPORT (CONTINUED)

Your directors present their report on the Company and its Controlled Entities ("the consolidated entity" or "Group") for the six months ended 30 June 2019.

Directors

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

Mr Laurence Freedman AM
Mr Zhigang Zhang
Mr Robert Schuitema
Mrs Brenda Shanahan
Mr Ningping Ma

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

Change in Accounting Period

Phoslock Environmental Technologies Limited changed its financial year end from 30 June to 31 December. The financial accounts for 30 June 2019 are for a six month period. The comparable financial period is the six month period from 1 July 2018 to 31 December 2018. As such, amounts presented in the financial statements are not entirely comparable.

Operating Results

Sales revenue was $9,802,611 for the six months (6 months to 31 December 2018: $8,985,878).

DIRECTORS' REPORT (CONTINUED)

Net operating profit before option, finance costs and tax for the six months was $1,714,576 (6 months to 31 December 2018: $1,600,182).

The break-down of the Group operating performance was:

	6 months ended 30 June 19		6 months ended 31 December 18	
	Total Revenue & Other Income	Operating Performance	Total Revenue & Other Income	Operating Performance
International operations	1,378,539	20,568	1,488,366	226,108
China operations	8,424,072	2,647,114	7,834,324	2,146,989
	9,802,611	2,667,682	9,322,690	2,373,097
Corporate charges *		(953,106)		(772,915)
Operating profit		1,714,576		1,600,182
Finance cost		(18,920)		-
Exchange gain		13,342		38,602
Option charges		-		(1,781,824)
Net profit/(loss) before tax		1,708,998		(143,040)
Income tax expense		(702,266)		(525,800)
Net profit/(loss) after tax		1,006,732		(668,840)

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

Gross profit was $6,277,039 for the six months (6 months to 31 December 2018: $4,932,956). The gross profit margin was 64.0% for the six months (6 months to 31 December 2018: 54.9%). The gross profit margin increased due to construction and engineering work undertaken and cost savings in the production of water treatment products from the Changxing manufacturing facility.

Operating expenses excluding option expenses, depreciation and amortisation, and finance costs for the six months to 30 June 2019 were $4,712,010 (6 months to 31 December 2018: $3,613,197). Annualizing the six months operating expenses, the major increases were employee costs, occupancy and director/listing & professional fees. During the six months to 30 June 2019 full time employees totaled 70 employees (as at 31 December 2018: 60 employees). The Group employed contractors and short term employees on projects in Beijing and the Yunnan alpine lake project. The Group is looking to increase full time employees by a further 10-15 over the next 12 months with additional sales specialists in China, additional technical and research & development professionals in Changxing and additional technical sales specialists in the international operations. For larger projects, the Group will continue to employ contractors and short term employees.

Net operating profit before option, finance costs and tax for the six months to 30 June 2019 was $1,714,576 (6 months to 31 December 2018: $1,600,182).

DIRECTORS' REPORT (CONTINUED)

The Group's Chinese subsidiary companies pay various taxes in China including company tax on its profits. This resulted in an income tax expense of $702,266 for the six months to 30 June 2019 (6 months to 31 December 2018: $525,800). The Group's Chinese subsidiary companies have applied for High Technology status, which if approved, will reduce the tax rate payable in China.

The consolidated result for the consolidated entity for the six months after providing for income tax amounted to a profit of $1,006,732 (6 months to 31 December 2018: loss of $668,840).

Current assets of the consolidated entity as at 30 June 2019 were $31,850,061, made up of cash ($17,892,763); trade and other receivables ($10,382,021) and inventories ($2,962,393) and other assets ($612,884).

Cash payments from customers for the six months period was $18,617,456 (6 months to 31 December 2018: $3,951,869). During January 2019 Rmb 45 million (approx. A$9.2 million) was received from trade receivables for the corresponding projects, significantly reducing trade receivables as at 31 January 2019. Cash payments to suppliers and tax paid for the six months period was $7,815,994 (6 months to 31 December 2018: $12,031,039). Net cash generated from Operating Activities for the six months period was $10,827,352 (6 months to 31 December 2018: outflow of $7,568,680).

Current liabilities of the consolidated entity as at 30 June 2019 were $6,204,430 made up of trade and other payables ($4,794,396); lease liability ($267,028); employee provisions ($391,347); tax payable in China ($751,659).

Current assets less current liabilities as at 30 June 2019 were $25,645,631 (6 months to 31 December 2018: $22,051,291).

Plant & equipment decreased by $87,344 to $1,378,648. New plant & equipment for the six months to 30 June 2019 totaled $26,525. This was mainly for the Changxing manufacturing facility.

During the six months to 30 June 2019 the Company received a total of $2,378,250 (before capital raising cost) in new equity via the conversion of 22,650,000 unlisted performance options into shares. The Group's net assets improved to $27,470,310 as at 30 June 2019 ($23,996,741 at 31 December 2018). The Group's gearing ratio as at 30 June 2019 (including trade creditors) was 23.0% (31 December 2018:12.6%).

DIRECTORS' REPORT (CONTINUED)

Dividends Paid or Recommended

No dividends have been paid or declared for payment in relation to the period ended 30 June 2019 (FY2018: Nil)

Review of Operations

Sales revenue for the six months to 30 June 2019 was $9,802,611 (6 months to 31 December 2018: $8,985,878).

Beijing Ecosystime Environmental Science and Technology Co., Ltd (BEST, which is 100% owned by PET) is 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).

BEST recorded sales of $8,424,072 for the six months to 30 June 2019. The major projects undertaken were ongoing treatment of polluted canals in Beijing using Phoslock® and a range of other remediation products. The Beijing Wetlands Project is nearing completion, with final project deliverables due in the December quarter. 130,000 tons of zeolites and volcanic materials have been laid on top of a geo-textile cover covering the 120-hectare project site, creating a barrier between the soils and remediation materials. When the project is completed, the total value of work will be in excess of $25m. Most of this was booked in 2018, of which some $6m is being booked in 2019.

In April 2019 BEST undertook trials on a large alpine lake in southern China. The results of the trial were very positive. The scope of works increased from lake applications to include work on the catchment area, including inflow rivers, canals and wetlands. The full scope of the project is still being determined. This is expected to be a multi-year project with significant quantities of Phoslock® used. There are total of nine lakes in this region, most have similar water quality and catchment issues.

In June 2019 Phoslock® advanced phosphorus removal technology was recognised in the 2019 Ministry of Water Resources Official Guide as a product for use in water conservation and remediation projects. The Ministry of Water Resources is the highest administrative organisation in the water conservation industry in China. Most of the 2,865 lakes with an area greater than $1km^2$ and 98,000 reservoirs are under the management of the Ministry of Water Resources.

DIRECTORS' REPORT (CONTINUED)

BEST is currently working on several projects where if the initial work is successful, the size of the project will increase significantly.

PET's international business (excluding China) recorded revenue of $1,378,539 for the six months to 30 June 2019. Projects were undertaken in Brazil, Belgium, Netherlands, United Kingdom, United States and Australia. International sales were affected by several projects being delayed until 2020. The pipeline for international projects to 2021 has increased significantly as key project milestones were achieved during the reporting period. The international pipeline covering the period 2019 to 2022, is currently $130 million, covering 33 projects in 18 countries.

55% of international sales came via the Group'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 three reservoirs and other lakes in northern and central Brazil.

PET's US licensee, SePRO Corporation has been working with a major Florida Water Authority to use Phoslock® in wetlands, to improve their effectiveness. A trial was undertaken in March 2019. PET has been advised that the Phoslock® Wetland trials achieved excellent results. These results were recently presented by the Water Authority to the Florida Governor's Algal Taskforce. The Florida Water Authority undertaking the trials has sought funding for large scale Phoslock® applications to its wetlands. A number of other water authorities in Florida and other states with similar problems are closely monitoring the current project and, if successful, will have applicability for wetlands across the US.

UK & European sales made up 43% of international sales. PET undertook a re-application of Phoslock® on the Serpentine in London's Hyde Park. In 2012, prior to the London Olympics, Phoslock® was successfully applied and resulted in first-rate water quality. The re-application in February was designed to maintain the high standard. PET has made a number of applications to medium-sized European drinking water supply reservoirs.

Our European team is currently working on several major projects planned for the second half of 2019 or early 2020 in the Netherlands, Belgium, Germany, the UK and Finland.

DIRECTORS' REPORT (CONTINUED)

The Changxing Factory is in the final stages of completing modifications to allow production of up to 42 tons of Phoslock® per day (15,300 tons pa); this should be completed in August. The major component is an enlargement of the wastewater system. Total cost of the factory modifications will be less than $1 million.

The Board is currently examining alternatives to significantly increase Phoslock® production to meet expected future demand.

Progress continues on a number of new R&D products and projects.

Financial Position

The net assets of the consolidated entity were $27,470,310 as of 30 June 2019, an improvement of $3,473,569 from 31 December 2018. The increase in net assets is due the conversion of 22.65 million unlisted employee options into shares raising $2,378,250 and Total Comprehensive Income of $1,006,732. Receivables less Payables decreased from $14,776,447 as at 31 December 2018 to $4,835,966 as at 30 June 2019. No new major plant & equipment was purchased during the financial period. As a result, cash and cash equivalents increased from $4,878,095 as at 31 December 2018 to $17,892,763 as at 30 June 2019.

At balance date, the Group had no external loans.

Capital Management

During the six months to 30 June 2019 the Company received $2,378,250 (before capital raising cost) from the exercise of 22.65 million performance options that were issued in 2017 to employees. The Company has 10.85 million performance options outstanding, which must be exercised by the holders on or before 20 December 2019. The exercise of these performance options will generate $1,139,250 in new equity.

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) Large lake and catchment projects in China;

(ii) Medium and Large lake projects in North & Southern America, Europe, Middle East and Australasia;

DIRECTORS' REPORT (CONTINUED)

(iii) 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;

(iv) Significantly increase Phoslock® production by adding additional manufacturing operations in China; and

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

Significant Changes in State of Affairs

During the six months to 30 June 2019 the Company received $2,378,250 (before capital raising cost) from the exercise of 22.65 million performance options.

Events after the Reporting Period

A new wholly owned subsidiary, Phoslock Belgium B.V., was setup in Belgium in July 2019.

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

DIRECTORS' REPORT (CONTINUED)

- Phoslock® has been certified by Chinese Research Academy of Environmental Sciences (CRAES). Phoslock® is classified as a general environmental substance. It is neither hazardous nor harmful to the environment. Phoslock® has low risk to the hydro ecological system.
- In June 2019 Phoslock® was accredited by the Chinese Ministry of Water Resources (MWR) as an approved phosphorus absorption product in their official gazette. MWR administers over 100,000 lakes and drinking water reservoirs in China.
- 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 Group operates.

Auditor's Independence Declaration

The lead auditor's independence declaration in accordance with Section 307C of the *Corporations Act 2001*, for the six months ended 30 June 2019 has been received and can be found on page 31 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 - Chair of Audit Committee
Dated at Sydney, 22nd August 2019	Dated at Melbourne, 22nd August 2019

KPMG

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

To the Directors of Phoslock Environmental Technologies Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Phoslock Environmental Technologies Limited for the half-year ended 30 June 2019 there have been:

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

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

KPMG

KPMG

Sarah Cain

Partner

Sydney

22 August 2019

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

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Six Months Ended 30 June 2019

	NOTE	6 months ended 30 June 19 $	6 months ended 31 December 18 $
Sales revenue	2	9,802,611	8,985,878
Cost of sales		(3,525,572)	(4,052,922)
Gross profit		**6,277,039**	**4,932,956**
Other income	2	352,362	336,812
Distribution expenses		(98,774)	(77,173)
Marketing expenses		(249,838)	(218,271)
Occupancy expenses	3	(50,228)	(172,383)
Director, listing & professional fees		(1,667,785)	(1,036,589)
Administrative expenses		(2,848,200)	(2,165,170)
Operating profit		**1,714,576**	**1,600,182**
Finance costs	3	(18,920)	-
Exchange gains		13,342	38,602
Options expenses		-	(1,781,824)
Profit/(loss) before income tax		**1,708,998**	**(143,040)**
Income tax expense		(702,266)	(525,800)
Profit/(loss) for the period		**1,006,732**	**(668,840)**
Other comprehensive income			
Exchange difference arising on translation of foreign controlled entities		104,878	236,285
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		**1,111,610**	**(432,555)**
Profit/(loss) for the period attributable to:			
- Owners of parent entity		1,006,732	(668,840)
- Non-controlling interest		-	-
Total profit/(loss) for the period		**1,006,732**	**(668,840)**
Total comprehensive income/(loss) for the period attributable to:			
- Owners of parent entity		1,111,610	(432,555)
- Non-controlling interest		-	-
Total comprehensive income/(loss) for the period		**1,111,610**	**(432,555)**
Earnings per share			
Basic earnings per share (cents per share)	4	0.20	(0.14)
Diluted earnings per share (cents per share)	4	0.20	(0.13)

The accompanying notes form part of these condensed consolidated financial statements

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

Condensed Consolidated Statement of Financial Position

As at 30 June 2019

	NOTE	As at 30 June 19 $	As at 31 December 18 $
CURRENT ASSETS			
Cash & cash equivalents		17,892,763	4,878,095
Trade & other receivables		10,382,021	17,762,206
Inventories	5	2,962,393	2,408,321
Other assets		612,884	448,403
TOTAL CURRENT ASSETS		**31,850,061**	**25,497,025**
NON-CURRENT ASSETS			
Financial assets		25,575	25,575
Property, plant & equipment		1,378,648	1,465,992
Right of use asset		738,164	-
Intangible assets		169,546	136,410
Deferred tax assets		139,485	358,314
TOTAL NON-CURRENT ASSETS		**2,451,418**	**1,986,291**
TOTAL ASSETS		**34,301,479**	**27,483,316**
CURRENT LIABILITIES			
Trade & other payables		4,794,396	2,114,567
Lease liabilities	6	267,028	-
Other liabilities		-	71,815
Short term provisions		391,347	388,160
Tax payable		751,659	871,192
TOTAL CURRENT LIABILITIES		**6,204,430**	**3,445,734**
NON-CURRENT LIABILITIES			
Lease liabilities	6	511,714	-
Other liabilities		115,025	40,841
TOTAL NON-CURRENT LIABILITIES		**626,739**	**40,841**
TOTAL LIABILITIES		**6,831,169**	**3,486,575**
NET ASSETS		**27,470,310**	**23,996,741**
EQUITY			
Issued capital	7	62,262,851	59,900,892
Reserves		6,111,189	6,006,311
Accumulated loss		(40,903,730)	(41,910,462)
Parent interest		27,470,310	23,996,741
Non-controlling interest		-	-
TOTAL EQUITY		**27,470,310**	**23,996,741**

The accompanying notes form part of these condensed consolidated financial statements

Condensed Consolidated Statement of Changes in Equity

For the Six Months Ended 30 June 2019

	Issued capital	Option reserves	Foreign currency translation reserves	Accumulated losses	Total attributable to owners of the Company	Non-controlling interest	Total equity
	$	$	$	$	$	$	$
31 December 2018							
Balance at 1 July 2018	**51,298,783**	**3,416,558**	**571,644**	**(41,137,177)**	**14,149,808**	**(92,914)**	**14,056,894**
Total comprehensive (loss)/income							
Loss for the period	-	-	-	(668,840)	**(668,840)**	-	**(668,840)**
Other comprehensive income	-	-	236,285	-	**236,285**	-	**236,285**
Total comprehensive (loss)/income for the period	-	-	**236,285**	**(668,840)**	**(432,555)**	-	**(432,555)**
Transaction with owners in the capacity as owners							
Shares issued during the period	5,311,529	-	-	-	**5,311,529**	-	**5,311,529**
Options exercised during the period	3,290,580	-	-	-	**3,290,580**	-	**3,290,580**
Options expenses during the period	-	1,781,824	-	-	**1,781,824**	-	**1,781,824**
Changes in ownership interests	-	-	-	(104,445)	**(104,445)**	92,914	**(11,531)**
Total transactions with owners in their capacity as owners	8,602,109	1,781,824	-	(104,445)	**10,279,488**	92,914	**10,372,402**
Balance at 31 December 2018	**59,900,892**	**5,198,382**	**807,929**	**(41,910,462)**	**23,996,741**	-	**23,996,741**

	Issued capital	Option reserves	Foreign currency translation reserves	Accumulated losses	Total attributable to owners of the Company	Non-controlling interest	Total equity
	$	$	$	$	$	$	$
30 June 2019							
Balance at 1 January 2019	**59,900,892**	**5,198,382**	**807,929**	**(41,910,462)**	**23,996,741**	-	**23,996,741**
Total comprehensive income							
Gain for the period	-	-	-	1,006,732	**1,006,732**	-	**1,006,732**
Other comprehensive income	-	-	104,878	-	**104,878**	-	**104,878**
Total comprehensive income for the period	-	-	**104,878**	**1,006,732**	**1,111,610**	-	**1,111,610**
Transaction with owners in the capacity as as owners							
Options exercised during the period	2,361,959	-	-	-	**2,361,959**	-	**2,361,959**
Total transactions with owners in their capacity as owners	2,361,959	-	-	-	**2,361,959**	-	**2,361,959**
Balance at 30 June 2019	**62,262,851**	**5,198,382**	**912,807**	**(40,903,730)**	**27,470,310**	-	**27,470,310**

The accompanying notes form part of these condensed consolidated financial statements

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

Condensed Consolidated Statement of Cash Flows

For the Six Months Ended 30 June 2019

	NOTE	6 months ended 30 June 19 $	6 months ended 31 December 18 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		18,617,456	3,951,869
Receipts from research & development grant		-	484,360
Payments to suppliers & employees		(7,213,024)	(11,553,890)
Interest received		44,810	8,130
Finance costs		(18,920)	-
Tax paid		(602,970)	(459,149)
NET CASH FROM/(USED) IN OPERATING ACTIVITIES	9	**10,827,352**	**(7,568,680)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant & equipment		(26,525)	(112,655)
Purchase of intangible assets		(36,265)	(59,871)
Acquisition of non-controlling interest		-	(11,531)
NET OF CASH USED IN INVESTING ACTIVITIES		**(62,790)**	**(184,057)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		-	5,536,001
Proceeds from exercise of share options		2,361,959	3,307,500
Payment of transaction cost – equity raising		-	(241,392)
Repayment of borrowings		-	(310,022)
Payment of lease liabilities		(100,723)	-
NET CASH FLOW FROM FINANCING ACTIVITIES		**2,261,236**	**8,292,087**
Net increase in cash & cash equivalents held		**13,025,798**	**539,350**
Cash & cash equivalents at the beginning of the period		4,878,095	4,324,053
Translation difference		(11,130)	14,692
CASH & CASH EQUIVALENTS AT THE END OF THE PERIOD		**17,892,763**	**4,878,095**

The accompanying notes form part of these condensed consolidated financial statements

Notes to the Condensed Consolidated Financial Statements
For the Six Months Ended 30 June 2019

Corporate Information

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

The address of the Group's registered office and principal place of business is Suite 403, 25 Lime Street, Sydney, New South Wales 2000, Australia. These condensed consolidated interim financial statements ("interim financial statements") as at and for the six months ended 30 June 2019 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.

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(A) Statement of Compliance

These interim financial statements have been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*, and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the period ended 31 December 2018 ("last annual financial statements"). They do not include all of the information required to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

This is the first set of the Group's financial statements in which AASB 16 *Leases* has been applied. Under the transition methods chosen, comparative information has not been restated. The 30 June 2019 results are therefore not directly comparable to prior years. Changes to significant accounting policies and the impact of applying the new standards are described in Note 1(E).

The interim financial statements were authorised for issue by the Board of Directors on 22nd August 2019.

(B) Use of judgements and estimates

In preparing these interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of asset and liabilities, income and expense. Actual results may differ from these estimates.

Notes to the Condensed Consolidated Financial Statements
For the Six Months Ended 30 June 2019

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for the new significant judgements relate to lessee accounting under AASB 16, which are described in Note 1(E).

Impact of the UK giving notice to withdraw from the EU

On 29 March 2017, the UK government invoked Article 50 of the *Treaty of Lisbon*, notifying the European Council of its intention to withdraw from the EU. There is an initial two-year timeframe for the UK and EU to reach an agreement on the withdrawal and the future UK and EU relationship, although this timeframe has been extended to 31 October 2019.

Management applied its judgement in determining impact of this on carrying amounts of assets and liabilities in these interim financial statements. As a result, the Group has not identified any impairment triggers at its UK subsidiary as of 30 June 2019.

(C) Functional and Presentation Currency

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

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

(D) Change in Accounting Period

PET changed its financial year end from 30 June to 31 December. During the transition, the financial year 2018 was a twelve-month period from 1 July 2017 to 30 June 2018. The comparable figures are from last financial accounts for the six months ended 31 December 2018 and the current interim financial statements are for the six months ended 30 June 2019. As such, amounts presented in the financial statements are not entirely comparable.

(E) Changes in Significant Accounting Policies

Except as described below, the accounting policies applied in these interim financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the period ended 31 December 2018.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ended 31 December 2019.

The Group has initially adopted AASB 16: *Leases* from 1 January 2019. A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

AASB 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has applied AASB 16 using the modified retrospective approach. Accordingly, the comparative information presented for six month period to 31 December 2018 has not been restated – i.e. it is presented, as previously reported, under AASB 117 and related interpretations. The details of the changes in accounting policies are disclosed below.

(i) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under AASB Interpretation 4: *Determining whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under AASB 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to AASB 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied AASB 16 only to contracts that were previously identified as leases. Contracts that were not identified as lease under AASB 117 and AASB Interpretation 4 were not reassessed. Therefore, the definition of a lease under AASB 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

(ii) As a lessee

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

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under AASB 16, the Group recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

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

The carrying amounts of right-of-use assets are as below:

	Property	**Equipment**	**Total**
Balance at 1 January 2019	861,921	13,851	875,773
Balance at 30 June 2019	**726,161**	**12,002**	**738,164**

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

The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the incremental borrowing rate. Generally, the Group uses the incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is measured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

Previously, the Group classified property leases as operating leases under AASB 117. These include office and factory facilities. The leases typically run for a period of 3-5 years. Some leases include an option to renew the lease for an additional 3-5 years after the end of the non-cancellable period. Some leases provide for additional rent payments that are based on changes in local price indices.

At transition, for leases classified as operating leases under AASB 117, lease liabilities were measured at the present value of the remaining lease payments, discounted at the incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured an amount equal to the lease liability. The Group applied this approach to all other leases.

The Group used the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117.

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

As a result of initially applying AASB 16, in relation to the leases that were previously classified as operating leases, the Group recognised $738,164 of right-of-use assets and $778,742 of lease liabilities as at 30 June 2019.

Also, in relation to those leases under AASB 16, the Group has recognised depreciation and interest costs, instead of operating lease expenses. During the six months ended 30 June 2019, the Group recognised $141,896 of depreciation charges and $18,920 of interest costs from these leases.

Notes to the Condensed Consolidated Financial Statements
For the Six Months Ended 30 June 2019

NOTE 2 REVENUE

	6 months ended 30 June 19	6 months ended 31 December 18
	$	$
Sales revenue		
- Sale of goods	9,730,734	8,980,593
- Provision of service	71,877	5,285
	9,802,611	8,985,878
Other revenue		
- Interest received	44,810	8,130
- Research & development grants	286,915	307,878
- Other income	20,637	20,804
	352,362	336,812
Total sales and other revenue	**10,154,973**	**9,322,690**

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

For the six months ended 30 June 2019, the sale of goods segment in China and European regions reported revenue of $8,424,072 and $525,784 (6 months to 31 December 2018: $7,817,763 and $56,840) and profit before tax of $2,613,983 and $80,266 (6 months to 31 December 2018: $2,125,429 and loss $37,508).

NOTE 3 EXPENSES FOR THE PERIOD

	6 months ended 30 June 19		6 months ended 31 December 18
	$		$
Expenses			
- Interest on leased assets	18,920		-
Total finance costs	**18,920**		-
Rental expense on leased premise	50,228		172,383
Employee benefit expense (excluding options expenses & Superannuation contributions)	1,939,436		1,427,614
Superannuation contributions	88,666		80,403
Depreciation and amortisation	202,875	*	56,389

- Including $141,896 depreciation charges on right-of-use assets by applying AASB 16.

Notes to the Condensed Consolidated Financial Statements
For the Six Months Ended 30 June 2019

NOTE 4 EARNINGS PER SHARE

	6 months ended 30 June 19	6 months ended 31 December 18
	$	$
Earnings used to calculate basic & dilutive EPS	1,006,732	(668,840)
Weighted average number of ordinary shares outstanding during the period used in calculating	No.	No.
Weighted average number of shares	501,416,773	488,144,161
Weighted average number of options outstanding	8,410,025	24,978,421
Weighted average number of ordinary shares outstanding during the period used in the calculation of dilutive EPS	**509,826,798**	**513,122,582**

NOTE 5 INVENTORIES

	As at 30 June 19	As at 31 December 18
	$	$
- Raw material (at cost)	919,751	582,766
- Finished goods (at cost)	2,042,642	1,825,555
	2,962,393	**2,408,321**

NOTE 6 LEASE LIABILITIES

	As at 30 June 19	As at 31 December 18
	$	$
Current		
- Property	263,641	-
- Equipment	3,387	-
Balance	**267,028**	-
Non-current		
- Property	502,936	-
- Equipment	8,778	-
Balance	511,714	-

Lease liabilities are related to the lease of:

- Sydney office premise expiring 30 September 2019. An renewal option is available to extend further 3 years. Rent is payable monthly in advance.
- Sydney office equipment lease expiring 10 October 2023. Rent is payable monthly in advance.
- Beijing office premise expiring 31 December 2020. Rent is payable quarterly in advance.
- Changxing factory premise expiring 28 February 2022. Rent is payable annually in advance. Some rent is rebatable from the Changxing local government if certain sales revenue targets are met.

Notes to the Condensed Consolidated Financial Statements
For the Six Months Ended 30 June 2019

NOTE 7 ISSUED CAPITAL

	As at 30 June 19	As at 31 December 18
	$	$
551,341,581 fully paid ordinary shares (31 December 2018: 528,691,581)	62,262,851	59,900,892

(a) Ordinary shares

	6 months ended 30 June 19		6 months ended 31 December 18	
	No.	$	No.	$
At the beginning of the period	**528,691,581**	**59,900,892**	**481,813,801**	**51,298,783**
Shares issued during the period				
- 12 July 2018, issue of shares under a Placement	-	-	15,377,780	5,536,001
- 26 October 2018, conversion of options	-	-	10,000,000	1,050,000
- 8 November 2018, conversion of options	-	-	20,000,000	2,100,000
- 27 November 2018, conversion of options	-	-	1,500,000	157,500
- 18 January 2019, conversion of options	12,200,000	1,281,000	-	-
- 18 February 2019, conversion of options	1,150,000	120,750	-	-
- 28 May 2019, conversion of options	5,200,000	546,000	-	-
- 11 June 2019, conversion of options	4,100,000	430,500	-	-
Transaction costs arising from Share Placement	-	-	-	(224,472)
Transaction costs arising from options conversion	-	(16,291)	-	(16,920)
Balances at the end of the period	**551,341,581**	**62,262,851**	**528,691,581**	**59,900,892**

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.

(b) Outstanding share options

The following is a table reconciling the movements of share options during the six months ended 30 June 2019:

	6 months ended 30 June 19		6 months ended 31 December 18	
	Number of options	Weighted Average Exercise Price	Number of options	Weighted Average Exercise Price
	No.	$	No.	$
Exercisable at beginning	33,500,000	0.105	65,000,000	0.105
Exercised	(22,650,000)	0.105	(31,500,000)	0.105
Exercisable at period end	10,850,000	0.105	33,500,000	0.105

NOTE 8 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 8 SEGMENT REPORTING (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.

Segment liabilities

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. 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:

- corporate charges
- exchange gain/loss
- options costs
- finance costs
- tax expenses

Notes to the Condensed Consolidated Financial Statements
For the Six Months Ended 30 June 2019

NOTE 8 SEGMENT REPORTING (CONTINUED)

(a) Segment performance

Six months ended 30 June 19	Australia/NZ	Europe/UK	US / Canada / Brazil	China	Sub-Total	Eliminations	Total
Revenue							
External sales	18,369	525,784	762,509	8,424,072	9,730,734	-	9,730,734
Inter-segment sales	619,776	-	7,992	369,398	997,166	(997,166)	-
Other revenue	-	71,877	-	-	71,877	-	71,877
Total segment revenue	**638,145**	**597,661**	**770,501**	**8,793,470**	**10,799,777**	**(997,166)**	**9,802,611**
Segment profit/(loss) before tax	**(23,608)**	**80,266**	**(28,505)**	**2,613,983**	**2,642,136**	**25,545**	**2,667,681**
Unallocated items:							
- corporate charges							(953,105)
- finance costs							(18,920)
- exchange gain/loss							13,342
- tax expenses							(702,266)
Profit after income tax from continuing operations							**1,006,732**

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

NOTE 8 SEGMENT REPORTING (CONTINUED)

(b) Segment assets

	Australia/NZ	Europe/UK	US / Canada Brazil	China	Sub-Total	Eliminations	Total
30 June 19							
Segment assets	23,295,047	765,978	-	26,227,829	50,288,854	(15,987,375)	34,301,479
Total group assets							34,301,479
31 December 18							
Segment assets	21,702,290	607,451	-	21,518,200	43,827,941	(16,344,625)	27,483,316
Total group assets							27,483,316

(c) Segment liabilities

	Australia/NZ	Europe/UK	US / Canada Brazil	China	Sub-Total	Eliminations	Total
30 June 19							
Segment liabilities	834,223	1,368,501	-	6,166,745	8,369,469	(1,538,300)	6,831,169
Total group liabilities							6,831,169
31 December 18							
Segment liabilities	600,277	1,288,617	-	4,430,967	6,319,861	(2,833,286)	3,486,575
Total group liabilities							3,486,575

(d) Major customers

The Group has a number of customers to which it provides both products and services. During the six months ended 30 June 2019, the Group's largest external customer accounts for 43.2% of external revenue (6 months ended 31 December 2018: 85.5%). The five largest customers were attributable 93.6% to the Group revenues during the six months period (6 months ended 31 December 2018: 98.4%).

Notes to the Condensed Consolidated Financial Statements
For the Six Months Ended 30 June 2019

NOTE 9 CASH FLOW INFORMATION

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

	6 months ended 30 June 19	6 months ended 31 December 18
	$	$
Net profit/(loss) after income tax	**1,006,732**	**(668,840)**
Non cash flow to profit		
Depreciation and amortization	269,429	121,648
Shares and option expense	-	1,781,824
Translation reserve	104,878	221,593
Changes in assets/liabilities		
Decrease/(increase) in trade and other receivables	7,380,185	(6,270,589)
(Increase)/decrease in prepayments and other assets	(164,481)	108,844
(Increase)/decrease in inventories	(554,072)	(635,424)
Decrease/(increase) in deferred tax assets	218,829	344,106
Increase/(decrease) in trade payables and accruals	2,679,829	(2,389,442)
Increase/(decrease) in financial & other liabilities	2,369	74,856
Increase/(decrease) in provisions	3,187	20,198
(Decrease)/increase in tax payables	(119,533)	(277,454)
Cash flow from/(used) in operating activities	**10,827,352**	**(7,568,680)**

Notes to the Condensed Consolidated Financial Statements
For the Six Months Ended 30 June 2019

NOTE 10 RELATED PARTIES

Transaction with related parties:

	6 months ended 30 June 19	6 months ended 31 December 18
	$	$
(a) Relatives of specified executives		
Services provided on a normal commercial basis by parties related to specified executives:		
Margaret Schuitema – part time employment(1)	65,365	57,115
Yolanda Winks – part time employment(2)	26,146	20,688
Martin Schuitema – part time employment(1)	12,223	8,426
Venus Ho – part time employment(3)	17,967	14,300
(b) Transactions with related parties		
Link Traders (Aust) Pty Ltd – rental costs for Sydney office(4)	57,948	58,102
Serenety Holdings Pty Ltd – investor relations(5)	74,730	126,107
Contribution to self-managed superannuation funds managed by related parties(1), (5) & (6)	27,674	39,338

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

NOTE 11 EVENTS SUBSEQUENT TO BALANCE DATE

A new wholly owned subsidiary, Phoslock Belgium B.V., was setup in Belgium in July 2019.

NOTE 12 CONTINGENT LIABILITIES

The group has no contingent liabilities (6 months ended 31 December 2018: Nil).

Directors' Declaration

In the opinion of the directors of Phoslock Environmental Technologies Limited and its Controlled Entities (the "Group"):

1. the condensed consolidated financial statements and notes, as set out on pages 12 to 29 are in accordance with the *Corporations Act 2001* including:
   (a) giving a true and fair view of the financial position as at 30 June 2019 and of the performance for the period ended on that date of the Group; and
   (b) complying with Australian Accounting Standards AASB 134 *Interim Financial Reporting* 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.

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

Mr Robert Schuitema
Managing Director

Dated this 22nd day of August 2019
Sydney

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www.phoslock.com.au

KPMG

Independent Auditor's Review Report

To the shareholders of Phoslock Environmental Technologies Limited

Report on the Interim Financial Report

Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of Phoslock Environmental Technologies Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Phoslock Environmental Technologies Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 30 June 2019 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Interim Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2019
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the half-year ended on that date
- Note 1 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The ***Group*** comprises Phoslock Environmental Technologies Limited (the Company) and the entities it controlled at the half year's end or from time to time during the half-year.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the half-year Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- for such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.

KPMG

Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2019 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Phoslock Environmental Technologies Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an Interim Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG	Sarah Cain
KPMG	Sarah Cain
	Partner
	Sydney
	22 August 2019