Phoslock Environmental Technologies Limited
Appendix 4D
Half-year report

1. Company details

Name of entity:	Phoslock Environmental Technologies Limited
ABN:	88 099 555 290
Reporting period:	For the half-year ended 31 December 2021
Previous period:	For the half-year ended 31 December 2020

2. Results for announcement to the market

				$'000
Revenues from ordinary activities	up	3.8%	to	4,971
Underlying Earnings/(Loss) Before Interest and Taxes ('Underlying EBIT')	up	23.0%	to	(3,632)
Loss from ordinary activities after tax attributable to the owners of Phoslock Environmental Technologies Limited	down	29.5%	to	(2,730)
Loss for the half-year attributable to the owners of Phoslock Environmental Technologies Limited	down	29.5%	to	(2,730)

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

Comments
The loss for the Group after providing for income tax amounted to $2,730,000 (31 December 2020: loss of $3,875,000).

Reconciliation of EBIT to profit after tax follow:

	Consolidated	
	1 Jul to 31 Dec 2021 $'000	1 Jul to 31 Dec 2020 $'000
Revenue	4,971	4,788
Net Profit/(Loss) after Tax (‘NPAT’)	(2,730)	(3,875)
Add: income tax expense/(benefit)	-	(236)
Add: Finance costs	50	99
Add: Impairment of receivables/(reversals)	(1,905)	1,131
Add: Impairment of assets/(reversals)	911	(155)
Add: Foreign exchange losses/(gains)	129	146
Less: Interest revenue	(80)	(62)
Less: Gain on remeasurement of lease liabilities	(7)	-
Underlying EBIT*	(3,632)	(2,952)

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

Refer to the 'Review of operations' section in the Directors' Report for further details of operations and commentary on the results.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	4.04	4.69

The net tangible assets calculation does not include rights-of-use assets of $322,000 (31 December 2020: $165,000) but include the lease liabilities of $1,292,000 (31 December 2020: $3,836,000).

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

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

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

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

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

Not applicable.

10. Audit qualification or review

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

The financial statements have been reviewed by the auditors.

11. Attachments

Details of attachments (if any):

The Interim Report of Phoslock Environmental Technologies Limited for the half-year ended 31 December 2021 is attached.

12. Signed

As authorised by the Board of Directors

Signed _____ Date: 11 March 2022

Lachlan McKinnon
Managing Director
Melbourne

Phoslock Environmental Technologies Limited

ABN 88 099 555 290

Interim Report - 1 July 2021 - 31 December 2021

Phoslock Environmental Technologies Limited
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31 December 2021

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Phoslock Environmental Technologies Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the 2nd half-year ended 31 December 2021.

Directors

The following persons were directors of Phoslock Environmental Technologies Limited during the whole of the 2nd half-year and up to the date of this report, unless otherwise stated:

David Krasnostein AM - Chairman
Brenda Shanahan AO
Lachlan McKinnon
Barry Sechos
Bob Prosser

Principal activities

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

Review of operations

The loss for the Group after providing for income tax amounted to $2,730,000 (31 December 2020: $3,875,000).

	Consolidated	
	1 Jul to 31 Dec 2021 $'000	1 Jul to 31 Dec 2020 $'000
Revenue	4,971	4,788
Net Profit/(Loss) after Tax ('NPAT')	(2,730)	(3,875)
Add: income tax expense/(benefit)	-	(236)
Add: Finance costs	50	99
Add: Impairment of receivables/(reversals)	(1,905)	1,131
Add: Impairment of assets/(reversals)	911	(155)
Add: Foreign exchange losses/(gains)	129	146
Less: Interest revenue	(80)	(62)
Less: Gain on remeasurement of lease liabilities	(7)	-
Underlying EBIT*	(3,632)	(2,952)

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

Operating results

Revenue for the period was $4,971,000 up 3.8% on the $4,788,000 generated in the prior corresponding period. Consistent with statements made at the first half of 2021, the business continued to face headwinds during the 2nd half-year as a result of COVID-related impacts which contributed to project delays and the continued priority given by government authorities to manage COVID related health initiatives. The improved result in revenue was as a result of the remediation contract in Rotterdam, The Netherlands. The project was the largest undertaken by PET in Europe.

Gross profit was $2,902,000 for the 2nd half-year of 2021 (2nd half-year to 31 December 2020: $2,983,000). The gross profit margin was 58% for the 2nd half-year (2nd half-year to 31 December 2020: 62%). The gross profit margin % was slightly down on prior corresponding period as a result of higher freight and distribution cost and slightly higher application costs.

Underlying EBIT for the 2nd half-year 2021 was a loss of $3,632,000 compared to a loss of $2,952,000 in the prior corresponding period. Gross profit margin was materially in line with prior period. Higher operating expenses in the period explains the unfavourable variance to prior period. Following on from commentary at June 30 2021, operating expenses remained relatively high as a result of continued expenditure on interim management and restructuring costs in China, ongoing legal expenses as a result of the fraud and mismanagement investigations, higher auditing costs consistent with the Board strategy to enable the company to lift the suspension of trading on the ASX and consultancy costs relating to reviews of the R&D program and the Company's manufacturing/supply chain strategy.

NPAT for the Group for the 2nd half-year 2021 amounted to a loss of $2,730,000; (2nd half-year to 31 December 2020 restated: loss of $3,875,000). Consistent with reporting in the FY 21 full year report, the prior corresponding period included a number of non-cash adjustments to receivables, inventory, plant property & equipment and right of use assets. As reported in early January 2022, the company secured a settlement in relation to all outstanding receivables involving a former customer and related party in China, Beijing BHZQ Environmental Engineering Technology Co. Ltd ('BHZQ'). The settlement concluded all arbitration and court cases for claims and counterclaims initiated by PET or BHZQ against one another. Further details on this matter can be found below under the sub heading Impairment of Receivables.

The current period also included the receipt of the Phase 1 payment ($536,000) relating to works completed at Xingyun Lake in China. Given circumstances and uncertainties at the time, the receivable relating to the full payment for this work was impaired in the first half of the 2020 financial year. Although the part-payment was a positive outcome, payment for the balance of the project remains outstanding and the Company is yet to receive written confirmation of the receivable from the customer, or acknowledgment that it is past due, despite several requests to that effect.

Consistent with stated inventory accounting policy, within the 2021 period; updates were made to the Group's provision for impairment of finished goods, the details of which can be found in note 9 of these accounts.

Within the 2nd half-year, the business added to existing tax losses in Australia.

Cash Flows
Operating Cash Flow for the 2nd half-year was a cash outflow of $3,076,000 (2nd half-year to 31 December 2020: outflow of $4,191,000).

Cash payments from customers for the 2nd half-year were $5,944,000 (2nd half-year to 31 December 2020: $2,456,000). Cash payments to suppliers and employees for the 2nd half-year were $9,182,000 (2nd half-year to 31 December 2020: $7,281,000). Receipts from customers came primarily from the previously announced contract to remediate Kralingse Plus Lake, in the city of Rotterdam, The Netherlands. The business also secured payments from the Gold Coast council, Brazil and smaller contracts in China. Continued cash outflows associated with due diligence on the previously announced manufacturing footprint analysis and R&D activities were incurred in the current period. Despite these outflows, the decrease in cash outflows vs the prior period relates primarily to higher customer receipts explained above partially offset with higher employee, research and development and consultancy payments.

New plant, equipment, and intangibles for the 2nd half-year 2021 totalled $48,000. This was mainly for the Chinese manufacturing facilities and fit out of the new Melbourne offices in South Yarra.

Financial position
Current assets of the Group as at 31 December 2021 were $29,836,000 made up of cash ($22,991,000); trade and other receivables ($2,781,000) and inventories ($3,305,000), financial assets of ($126,000) and other assets ($633,000).

Current liabilities of the Group as at 31 December 2021 were $3,825,000 made up of trade / other payables, contract liabilities, lease liabilities, employee liabilities and indirect taxes payable.

The net assets of the Group were $25,817,000 as at 31 December 2021 (30 June 2021: $28,506,000), an decrease of $2,451,000 from 30 June 2021.

As a result, cash and cash equivalents decreased to $22,991,000 as at 31 December 2021 (30 June 2021 : $26,299,000).

The 2nd half-year financial statements have been prepared on the going concern basis of accounting, which assumes, the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business, supported by the Group's strong cash position (as above) and net current asset position of $26,011,000 as at as at 31 December 2021 (30 June 2021: $28,256,000). At balance date, the Group had no external loan facilities.

Whilst the Group expects to utilise some of its available cash reserves to support its operating activities in the short term, and settle amounts relating to external advisor costs arising from the ongoing litigation as a result of the Board investigation, the Group's current cashflow forecasts indicate that the cash held by the Group will be sufficient to support its operating activities and pay creditors as and when they fall due for no less than 12 months from the date of this directors' report.

Impairment of receivables
On 10 January 2022, the Group obtained a $1,800,000 settlement of outstanding receivables and recognised a reversal equal to this amount as at 31 December 2021 (30 June 2021: the Group has recognised a loss of $2,121,000). The amount was received in two equal instalments in mid-January 2022 and mid-February 2022.

As noted in the 31 December 2020 financial statements, the Group identified an amount of A$349,000 in accounts payable, which related to a contractual obligation to pay a third party connected with transactions under investigation. The contract was characterised as labour services connected to the Xingyun Lake Project. Due to concerns regarding the interdependency of the contracts related to the Xingyun Lake Project, management concluded that the recoverability of outstanding accounts receivable in relation to this contract was uncertain, notwithstanding that the terms of the Xingyun Lake contract did not require payment until 31 March 2021. Management therefore concluded to impair the outstanding balance recognising an allowance for expected credit losses of $6,403,000 as at 31 December 2020 in relation to this contract.

During the first half-year of 2021, the Company received the Phase 1 payment ($536,000) relating to works completed at Xingyun Lake. The part payment resulted in a partial write back of the impairment provision maintained at 31 December 2020. Although this recent part-payment is a positive outcome, it is for initial work, not the bulk of the project application. The company is yet to receive written confirmation of the receivable from the customer, or acknowledgment that it is past due, despite several requests to that effect.

At around the same time, the Company extinguished the contractual obligation to pay the third party connected to the Xingyun Lake Project. This resulted in a write back of an accounts payable provision of A$349,000 as a credit to the profit and loss account "other income", in accordance with accounting standard.

Notwithstanding the release of the contractual obligation, it remains management judgment that the recoverability of outstanding accounts receivable for Xingyun Lake continues to be uncertain and the impairment provision remain.

The Company remains in constant contact with Xingyun Lake officials to secure payment. Recently, officials of the lake have made preliminary overtures to reach agreement on a payment plan. These types of overtures in the past have borne little fruit. Should the Lake agree to a payment plan and demonstrate a consistency of payment to the plan, management will asses its judgement on the balance of that receivable in line with the Group policy.

Both of these transactions have been treated as other income items as they are deemed to not have an ongoing affect to the underlying performance of the business. Management believes that presenting Underlying EBIT provides a better understanding of its financial performance by facilitating a more representative comparison of financial performance between financial periods.

Significant changes in the state of affairs
There were no significant changes in the state of affairs of the Group during the financial half-year.

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

The Group commits to comply with all regulations governing the use and application of its water technology products both in Australia and internationally.

Phoslock® has been awarded the North American Drinking Water certification (NSF/ANSI 60) since 2011. The certification is renewed annually.

Board investigations

On 16 November 2021, PET Chairman, Managing Director and CFO/Company Secretary hosted a webinar to enable an update to shareholders on the progress of the investigation and the pathway to lifting the trading suspension on the ASX. This involved a detailed disclosure of matters arising from the investigation such that the ASX be satisfied that the company has taken all reasonable measures to ensure shareholders are fully informed in relation to all relevant matters concerning the Company. In particular those matters which led to the suspension of our listing; the potential financial and other impacts of those matters; and the steps being taken by the company to address those matters.

As detailed in the webinar, substantial work has been undertaken to restructure the business and put in place processes and other governance standards that ensure these matters cannot reoccur.

The shareholder webinar held on 16 November 2021 provided significantly more detail on the matters relating to mismanagement and alleged fraud in respect of the China operations. A full transcript of that webinar is available at the following link: https://www.phoslock.com.au/investor-centre/presentations/.

PET management is committed to keeping shareholders fully informed on developments.

Employee share options

As of 31 December 2021, the long term incentive schemes of the Company conform with best practice and aligned with shareholders' interests as a result of the full review of the long term incentive schemes of the Company commissioned by the Chairman of the Nomination and Remuneration Committee.

Rounding of amounts

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

Auditor's independence declaration

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

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

Lachlan McKinnon
Managing Director

11 March 2022
Melbourne

SW
Accountants & Advisors

Take the lead

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE *CORPORATIONS ACT 2001* TO THE DIRECTORS OF PHOSLOCK ENVIRONMENTAL TECHNOLOGIES LIMITED

As lead auditor, I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2021 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.

ShineWing Australia

ShineWing Australia
Chartered Accountants

Hayley Underwood
Partner

Melbourne, 11 March 2022

Phoslock Environmental Technologies Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2021

	Note	Consolidated 1 Jul to 31 Dec 2021 $'000	Consolidated 1 Jul to 31 Dec 2020 $'000
Revenue			
Sales revenue	5	4,971	4,788
Cost of sales		(2,069)	(1,805)
Gross profit		2,902	2,983
Other income	6	209	294
Interest revenue calculated using the effective interest method		80	62
Expenses			
Distribution		(72)	(34)
Marketing		(127)	(113)
Occupancy		(38)	(249)
Director, listing and professional fees		(3,570)	(3,099)
Administration		(3,058)	(2,880)
Reversals/(impairment) of receivables	8	1,905	(1,131)
Reversals/(impairment) of assets	7	(911)	155
Finance costs	7	(50)	(99)
Loss before income tax benefit		(2,730)	(4,111)
Income tax benefit		-	236
Loss after income tax benefit for the half-year attributable to the owners of Phoslock Environmental Technologies Limited		(2,730)	(3,875)
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		41	(737)
Other comprehensive income/(loss) for the half-year, net of tax		41	(737)
Total comprehensive loss for the half-year attributable to the owners of Phoslock Environmental Technologies Limited		(2,689)	(4,612)
		Cents	**Cents**
Basic earnings per share	17	(0.44)	(0.62)
Diluted earnings per share	17	(0.44)	(0.62)

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

Phoslock Environmental Technologies Limited
Consolidated statement of financial position
As at 31 December 2021

	Note	Consolidated 31 Dec 2021 $'000	Consolidated 30 Jun 2021 $'000
Assets			
Current assets			
Cash and cash equivalents		22,991	26,299
Trade and other receivables	8	2,781	1,735
Inventories	9	3,305	3,882
Financial assets		126	-
Other assets		633	493
Total current assets		29,836	32,409
Non-current assets			
Property, plant and equipment	10	15	36
Right-of-use assets	11	322	134
Intangibles		241	215
Total non-current assets		578	385
Total assets		30,414	32,794
Liabilities			
Current liabilities			
Trade and other payables		2,935	3,671
Contract liabilities		88	-
Lease liabilities	12	520	261
Employee benefits		282	221
Total current liabilities		3,825	4,153
Non-current liabilities			
Lease liabilities	12	772	135
Total non-current liabilities		772	135
Total liabilities		4,597	4,288
Net assets		25,817	28,506
Equity			
Issued capital	13	92,398	92,398
Reserves		1,092	1,051
Accumulated losses		(67,673)	(64,943)
Total equity		25,817	28,506

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

Phoslock Environmental Technologies Limited
Consolidated statement of changes in equity
For the half-year ended 31 December 2021

Consolidated	Issued capital $'000	Foreign currency translation reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2020	92,488	1,722	(59,861)	34,349
Loss after income tax benefit for the half-year	-	-	(3,875)	(3,875)
Other comprehensive loss for the half-year, net of tax	-	(737)	-	(737)
Total comprehensive loss for the half-year	-	(737)	(3,875)	(4,612)
Transactions with owners in their capacity as owners:				
Transaction costs	(90)	-	-	(90)
Balance at 31 December 2020	92,398	985	(63,736)	29,647

Consolidated	Issued capital $'000	Foreign currency translation reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2021	92,398	1,051	(64,943)	28,506
Loss after income tax expense for the half-year	-	-	(2,730)	(2,730)
Other comprehensive income for the half-year, net of tax	-	41	-	41
Total comprehensive income/(loss) for the half-year	-	41	(2,730)	(2,689)
Balance at 31 December 2021	92,398	1,092	(67,673)	25,817

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

Phoslock Environmental Technologies Limited
Consolidated statement of cash flows
For the half-year ended 31 December 2021

	Consolidated	
	1 Jul to 31 Dec 2021 $'000	1 Jul to 31 Dec 2020 $'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	5,944	2,456
Payments to suppliers and employees (inclusive of GST)	(9,182)	(7,281)
Government grants and incentives received	86	192
Interest received	76	45
Income taxes paid	-	397
Net cash used in operating activities	(3,076)	(4,191)
Cash flows from investing activities		
Payments for property, plant and equipment	(48)	(10)
Payments for intangibles	(48)	(11)
Net cash used in investing activities	(96)	(21)
Cash flows from financing activities		
Proceeds from exercise of options	-	16
Share issue transaction costs	-	(90)
Repayment of lease liabilities	(167)	(272)
Net cash used in financing activities	(167)	(346)
Net decrease in cash and cash equivalents	(3,339)	(4,558)
Cash and cash equivalents at the beginning of the financial half-year	26,299	35,245
Effects of exchange rate changes on cash and cash equivalents	31	(246)
Cash and cash equivalents at the end of the financial half-year	22,991	30,441

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

Note 1. General information

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

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

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

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 11 March 2022.

Note 2. Significant accounting policies

These general purpose financial statements for the interim reporting period 1 July 2021 to 31 December 2021 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 31 December 2021 and interim report 30 June 2021 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

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

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

Going concern

The directors have formed the view that the financial statements should be prepared on the going concern basis of accounting, which assumes, the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. This is supported by the Group’s strong cash position and net current asset position of $26,011,000 as at 31 December 2021 (30 June 2021: $28,256,000), and the Group having no external loan facilities and no litigation matters currently against it.

Note 3. Critical accounting judgements, estimates and assumptions

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

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

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

Allowance for expected credit losses
The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience, historical collection rates, the impact of the COVID-19 pandemic and forward-looking information that is available. The allowance for expected credit losses, is calculated based on the information available at the time of preparation. The actual credit losses in future years may be higher or lower. See note 8 for further information.

Provision for impairment of inventories
The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence. See note 9 for further information.

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

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

Note 4. Operating segments

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

The CODM reviews earnings before interest and taxes ('EBIT'). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

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

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

Note 4. Operating segments (continued)

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

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

Operating segment information

Consolidated - 1 Jul to 31 Dec 2021	Australia/NZ $'000	Europe/UK $'000	US/Canada/ Brazil $'000	China $'000	Eliminations $'000	Total $'000
Revenue						
Sales to external customers	344	3,891	343	393	-	4,971
Intersegment sales	2,136	-	415	328	(2,879)	-
Total revenue	2,480	3,891	758	721	(2,879)	4,971
Underlying EBIT*	(5,232)	1,409	(33)	(940)	1,164	(3,632)
Interest revenue	80	-	-	-	-	80
Gain remeasurement of lease liabilities	7	-	-	-	-	7
Reversal of impairment of receivables	-	-	-	1,905	-	1,905
Impairment of assets	-	-	-	(911)	-	(911)
Foreign exchange loss	(10)	-	-	(119)	-	(129)
Finance costs	(4)	-	-	(46)	-	(50)
Profit/(loss) before income tax expense	(5,159)	1,409	(33)	(111)	1,164	(2,730)
Income tax expense						-
Loss after income tax expense						(2,730)
Assets						
Segment assets	40,757	3,005	10	7,934	(21,292)	30,414
Total assets						30,414
Liabilities						
Segment liabilities	4,381	2,371	9	1,898	(4,062)	4,597
Total liabilities						4,597

Note 4. Operating segments (continued)

Consolidated - 1 Jul to 31 Dec 2020	Australia/NZ $'000	Europe/UK $'000	US/Canada/ Brazil $'000	China $'000	Eliminations $'000	Total $'000
Revenue						
Sales to external customers	73	459	2,359	1,897	-	4,788
Intersegment sales	237	90	-	2,176	(2,503)	-
Total revenue	310	549	2,359	4,073	(2,503)	4,788
Underlying EBIT*	(4,487)	27	1,643	620	(755)	(2,952)
Interest revenue	34	-	-	28	-	62
Impairment of receivables	-	-	-	(1,131)	-	(1,131)
Impairment of assets	-	-	-	155	-	155
Foreign exchange losses	(29)	-	-	(117)	-	(146)
Finance costs	(13)	(1)	-	(85)	-	(99)
Profit/(loss) before income tax benefit	(4,495)	26	1,643	(530)	(755)	(4,111)
Income tax benefit						236
Loss after income tax benefit						(3,875)
Consolidated - 30 Jun 2021						
Assets						
Segment assets	46,436	602	126	8,743	(23,113)	32,794
Total assets						32,794
Liabilities						
Segment liabilities	4,918	47	74	3,002	(3,753)	4,288
Total liabilities						4,288

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

Note 5. Revenue

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

	Consolidated	
	1 Jul to 31 Dec 2021 $'000	1 Jul to 31 Dec 2020 $'000
Geographical regions		
Australia/NZ	344	73
Europe/UK	3,891	459
US/Canada/Brazil	343	2,359
China	393	1,897
	4,971	4,788
Timing of revenue recognition		
Goods transferred at a point in time	4,648	4,743
Services transferred at a point in time	323	45
	4,971	4,788

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

Note 6. Other income

	Consolidated	
	1 Jul to 31 Dec 2021 $'000	1 Jul to 31 Dec 2020 $'000
Net gain on disposal of property, plant and equipment	-	6
Gain on remeasurement of lease liabilities	7	-
Research and development grants	(1)	230
Other	203	58
Other income	209	294

Other
This includes $193,000 freight collected from customer for product transportation.

Note 7. Expenses

	Consolidated	
	1 Jul to 31 Dec 2021 $'000	1 Jul to 31 Dec 2020 $'000
Loss before income tax includes the following specific expenses:		
Depreciation		
Office equipment	11	43
Land and buildings right-of-use assets	39	86
Office equipment right-of-use assets	4	3
Total depreciation	54	132
Amortisation		
Patents and trademarks	6	5
Total depreciation and amortisation	60	137
Impairment of assets/(reversals)		
Inventories	176	(146)
Plant and equipment	58	(40)
Rights-of-use assets	703	31
Other receivables	(26)	-
Total impairment	911	(155)
Finance costs		
Interest and finance charges paid/payable on borrowings	-	1
Interest and finance charges paid/payable on lease liabilities	50	98
Finance costs expensed	50	99
Leases		
Short-term lease payments	25	242
Employee benefit expense		
Employee benefits expense excluding superannuation	2,436	2,070
Defined contribution superannuation expense	84	99
Total employee benefit expense	2,520	2,169

Note 8. Trade and other receivables

	Consolidated	
	31 Dec 2021 $'000	30 Jun 2021 $'000
Current assets		
Trade receivables	10,843	11,850
Less: Allowance for expected credit losses	(8,062)	(10,198)
	2,781	1,652
Other receivables	-	83
	2,781	1,735

Note 8. Trade and other receivables (continued)

Allowance for expected credit losses
As at 31 December 2020 and 30 June 2021 the receivable from BHZQ remained due, at that time the probability of collection was deemed remote, notwithstanding the Group's continued efforts to recover the amount including taking the matter to arbitration. The Group continued to recognise an impairment provision of $2,121,000 for the half year ended June 30 2021 for the amount outstanding from BHZQ. This amount constitutes the full balance owing.

On 10 January 2022, the Group obtained a $1,800,000 settlement of outstanding receivable and recognised a reversal equal to this amount as at 31 December 2021 (31 December 2020: loss of $2,121,000). The amount has been received in two equal instalments in mid-January 2022 and mid-February 2022.

The Group has identified an amount of $349,000 at 31 December 2020, which related to a contractual obligation to pay a third party connected with transactions under investigation in connection with the Group's Chinese operations. The Group was party to a contemporaneous sales contract on the Xingyun Lake Project.

Due to concerns regarding the interdependency of the two contracts related to the Xingyun Lake Project, the Board concluded that the recoverability of outstanding accounts receivable in relation to this contract is uncertain. The Board concluded to continue to impair the outstanding balance recognising an allowance for expected credit losses of $6,403,000 as at 31 December 2020 in relation to this contract.

During the year, the Company received the Phase 1 payment ($536,000) relating to works completed at Xingyun Lake. The part payment resulted in a partial write back of the impairment provision maintained at 31 December 2020. Although this recent part-payment is a positive outcome, it is for initial work, not the bulk of the project application. The Company is yet to receive written confirmation of the receivable from the customer, or acknowledgment that it is past due, despite several requests to that effect.

During the current period, the Company extinguished the contractual obligation to pay the 3rd party connected to the Xingyun Lake Project. This resulted in a write back of an account payable provision of $357,000 as a credit to other income in the statement of profit or loss, in accordance with accounting standards.

Notwithstanding the release of the contractual obligation, it remains management's judgment that the recoverability of outstanding accounts receivable for Xingyun Lake continues to be uncertain and the impairment provision remain.

The Company remains in frequent contact with Xingyun Lake officials to secure payment. Throughout 2021 officials of the Lake have made overtures to reach agreement on a payment plan. These types of overtures in the past have borne little fruit. Should the lake officials agree to a payment plan and demonstrate a consistency of payment to the plan, management will re-assess its judgement on the balance of that receivable.

Following a legal review of contracts associated with the Xingyun Lake project post 30 June 2021 reporting, the aging has been reclassified from not overdue to 3 to 6 months overdue in the table below. The amount reclassified was $6,846,000

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

	Carrying amount		Allowance for expected credit losses	
Consolidated	31 Dec 2021 $'000	30 Jun 2021 $'000	31 Dec 2021 $'000	30 Jun 2021 $'000
Not overdue	1,019	1,727	-	1,456
0 to 3 months overdue	81	545	-	-
3 to 6 months overdue	688	7,628	-	6,846
Over 6 months overdue	9,055	1,950	8,062	1,896
	10,843	11,850	8,062	10,198

Note 8. Trade and other receivables (continued)

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

	Consolidated	
	31 Dec 2021 $'000	30 Jun 2021 $'000
Opening balance	10,198	10,350
Additional provisions recognised	-	27
Foreign exchange translation	386	357
Unused amounts reversed	(2,522)	(536)
Closing balance	8,062	10,198

Note 9. Inventories

	Consolidated	
	31 Dec 2021 $'000	30 Jun 2021 $'000
Current assets		
Raw materials - at cost	877	955
Finished goods - at cost	4,238	4,650
Less: Provision for impairment	(1,810)	(1,723)
	2,428	2,927
	3,305	3,882

The Group concluded that its inventory holding exceeded short term demand in light of the continued impacts of COVID-19 and reduced business activity in China following the Board investigation. While directors believe there is a limited risk of its inventory (both raw materials and finished goods) becoming obsolete or expiring (excluding the amounts disclosed below), based on the factors outlined above, the Board concluded to impair all or portions of inventory that are not associated with a committed order or is under contract negotiation with a memorandum of understanding (MOU).

The Chinese Manufacturing facility ('PWSC') holds $1,508,000 worth of Phoslock® that has been defined as having a quality issue or defect in the product during the manufacturing process which renders it non-resaleable or non-useable in its current state, and therefore has been fully provided for.

Note 10. Property, plant and equipment

	Consolidated	
	31 Dec 2021 $'000	30 Jun 2021 $'000
Non-current assets		
Plant and equipment - at cost	2,283	2,375
Less: Accumulated depreciation	(793)	(801)
Less: Impairment	(1,475)	(1,538)
	15	36
Motor vehicles - at cost	76	76
Less: Accumulated depreciation	(76)	(76)
	-	-
	15	36

Note 10. Property, plant and equipment (continued)

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

Consolidated	Plant and equipment $'000
Balance at 1 July 2021	36
Additions	44
Exchange differences	3
Impairment of assets	(58)
Depreciation expense	(10)
Balance at 31 December 2021	15

Impairment
As at 30 June 2020 the Group identified an indicator of impairment with respect to the Group's property, plant and equipment, arising from the operating loss incurred by the Group during the period. In light of this, the Group undertook an impairment assessment which resulted in the recognition of an impairment loss which reduced the carrying value of Phoslock (Changxing) Water Solutions (China) (a subsidiary of the Group) plant, property and equipment assets to $nil.

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

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

In accordance with accounting standards, an impairment loss on property, plant and equipment assets can be reversed where there is evidence that the conditions that resulted in the impairment loss are no longer present. The Group intends to reassess the position adopted at future balance dates, as it did as at 31 December 2021 for all subsidiaries in China, with reference to current and future trading performance at that time.

The value in use model was created to test whether the CGU generates cash when taking into consideration the relative age and condition of the assets and capacity constraint of the plant as a result of treating the wastewater appropriately (3,000 tonnes p/a).

Given the above, combined with market pricing of the product and the overheads inherent in the business, the model indicated that the recoverable amount of the CGU was lower than the carrying amount of the assets within the CGU and therefore an impairment loss was recognised on property, plant and equipment in the current and comparative period as outlined above.

Note 11. Right-of-use assets

	Consolidated	
	31 Dec 2021 $'000	30 Jun 2021 $'000
Non-current assets		
Land and buildings - right-of-use	1,959	928
Less: Accumulated depreciation	(60)	(17)
Less: Impairment	(1,580)	(791)
	319	120
Office equipment - right-of-use	14	28
Less: Accumulated depreciation	(11)	(14)
	3	14
	322	134

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

The Group also leases office equipment under contracts of 4 years.

Impairment
As at 30 June 2020 the Group identified an indicator of impairment with respect to its China Operations right-of-use assets, primarily lease assets, arising from the operating loss incurred by the Group during the period. In light of this, the Group undertook an impairment test which resulted in the recognition of an impairment loss which reduced the carrying value of the right-of-use asset to $nil.

The recoverable amount of the CGU associated with the Group's Chinese operations was estimated based on the present value of the future cash flows expected to be derived from the CGU (value in use). The recoverable amount of the CGU was lower than the carrying amount of the assets within the CGU and therefore an impairment loss was recognised on right-of-use assets in the comparative period as outlined above. This impairment loss reflects the uncertainty regarding the future operating performance of the Group in light of the loss incurred in the current year, volatile market conditions associated with COVID-19 and uncertainty regarding the future performance of the Group's Chinese operations.

In accordance with accounting standards, an impairment loss on right-of-use assets can be reversed where there is evidence that the conditions that resulted in the impairment loss are no longer present. The Group intends to reassess the position adopted at future balance dates, as it did as at 31 December 2021, with reference to current and future trading performance at that time.

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

Consolidated	Buildings right-of-use $'000	Office equipment right-of-use $'000	Total $'000
Balance at 1 July 2021	120	14	134
Additions	1,024	-	1,024
Disposals	(34)	-	(34)
Exchange differences	(56)	-	(56)
Impairment of assets	(703)	-	(703)
Lease modifications	-	(7)	(7)
Impairment loss reversed	7	-	7
Depreciation expense	(39)	(4)	(43)
Balance at 31 December 2021	319	3	322

Note 12. Lease liabilities

	Consolidated	
	31 Dec 2021 $'000	30 Jun 2021 $'000
Current liabilities		
Lease liability	520	261
Non-current liabilities		
Lease liability	772	135
	1,292	396

Note 13. Issued capital

	Consolidated			
	31 Dec 2021 Shares	30 Jun 2021 Shares Restated	31 Dec 2021 $'000	30 Jun 2021 $'000
Ordinary shares - fully paid	624,390,509	624,390,509	92,398	92,398

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

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

In the prior year, the Company became aware that 610,000 ordinary shares in the Company were invalidly issued to one of its wholly-owned subsidiaries in 2017 and 2019. These transactions have been accounted for and adjusted accordingly to reflect that the purported issue was void. The Company has completed the process of formally rescinding the purported issue and has taken the necessary steps to correct its registered details to remove these void shares.

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

Note 14. Dividends

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

Note 15. Contingent liabilities

The Group is continuing to assess certain regulatory compliance, legal and operational matters connected with its Chinese operations which may result in penalties being imposed, or the Group incurring additional costs associated with rectification and remediation activities. These include regulatory matters (in Australia and in China), potential civil proceedings, income tax and other associated tax matters as well as environmental matters. As at the date of this financial report it is not possible to measure theses obligations with sufficient reliability as they remain subject to the outcome of future events not wholly within the control of the entity. The Group will recognise a liability for these amounts if and when the possible obligations are confirmed and can be reliably measured.

Note 15. Contingent liabilities (continued)

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

Note 16. Related party transactions

Parent entity
Phoslock Environmental Technologies Limited is the parent entity.

Transactions with related parties related to fraud
In the prior year, the Group identified that previous members of Key Management Personnel ('KMP') (Mr Zhigang Zhang - resigned 30 September 2020, Mr Ningping Ma- resigned 30 September 2020 and Mr Tingshan Liu- resigned 31 December 2020) had relationships with the following entities that rendered them to be related parties of the Group up to the date of the resignation of these KMPs, which had not been disclosed:

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

The following are the transactions with the above related entities:

Transactions	Entity	2nd half-year 31 Dec 2021* $	2nd half-year ended 31 Dec 2020 $
Sales of Phoslock and bacteria agents (Xinfeng River Ecological Remediation)	BHZQ	-	807,104
Sales of aeration machines (Xinfeng River project)	BHZQ	-	-
Purchase of consulting service (Car rental service)	BHEET	-	4,756
Purchase of consulting service (Venue hire service)	BHEET	-	5,945

* There are no more transactions with the above related parties as they are no longer KMP during the 2nd half-year ended 31 December 2021.

Note 16. Related party transactions (continued)

Receivable from and payable to related parties related to fraud
The following receivable from and payable to the above related parties.

	31 December 2021		30 June 2021	
	Trade and other receivables $	Trade and other payables $	Trade and other receivables $	Trade and other payables $
BHEET**	-	-	-	-
BHZQ*	-	-	-	-
	-	-	-	-

* Represents value of receivables after provision for expected credit loss had been fully written-off as of 31 December 2021.

** There were trade and other receivables of $1,729 (30 June 2021: 1,591) and trade and other payables of $256,117 (30 June 2021: 202,566) as of 31 December 2021 but these are no longer disclosed as BHEET is not a related party as at 31 December 2021 and 30 June 2021.

Transactions with related parties previously disclosed
The receivable from and payable to the above related parties are as follows:

	Consolidated	
	1 Jul to 31 Dec 2021 $	1 Jul to 31 Dec 2020 $
Payment for services provided by companies related to key management personnel:		
Payment for rent - Link Traders (Aus) Pty Ltd*	17,088	52,355
Payment for investor relations fees - Serenity Holdings Pty Ltd*	-	177,659

* related party of Laurence Freedman, related party up to date of retirement which is 25 May 2021.

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

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

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

Board investigations
The updated details of these matters are detailed in the 16 Nov 2021 disclosure ('PET Nov 2021 Business Update') the details of which can be found at https://www.phoslock.com.au/investor-centre/presentations/.

Note 17. Earnings per share

	Consolidated	
	1 Jul to 31 Dec 2021 $'000	1 Jul to 31 Dec 2020 $'000
Loss after income tax attributable to the owners of Phoslock Environmental Technologies Limited	(2,730)	(3,875)

Note 17. Earnings per share (continued)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	624,390,509	624,390,509
Weighted average number of ordinary shares used in calculating diluted earnings per share	624,390,509	624,390,509

	Cents	Cents
Basic earnings per share	(0.44)	(0.62)
Diluted earnings per share	(0.44)	(0.62)

3,000,000 (2020: 26,000,000) options were excluded from the weighted average number of ordinary shares used in calculating diluted earnings per share as they were anti-dilutive.

Note 18. Events after the reporting period

Since 30 June 2021, the Group's operations have continued to be impacted by the COVID-19 pandemic and related Government actions imposed in key markets to slow the spread of the virus. As the global outbreak of COVID-19 continues to progress and evolve, it is extremely challenging to predict the full extent and duration of its impact on the Group's business activities

No other matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

Lachlan McKinnon
Managing Director

11 March 2022
Melbourne

SW
Accountants & Advisors

Take the lead

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PHOSLOCK ENVIRONMENTAL TECHNOLOGIES LIMITED

Report on the Audit of the Interim Financial Statements

Qualified Opinion

We have audited the interim financial statements of Phoslock Environmental Technologies Limited (the Company and its subsidiaries (the Group)) which comprises the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying interim financial statements of Phoslock Environmental Technologies Limited is in accordance with the *Corporations Act 2001*, including:

a. giving a true and fair view of the Group's financial position as at 31 December 2021 and of its financial performance for the half-year then ended; and

b. complying with AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001*.

Basis for Qualified Opinion

The prior period financial statements for the year ended 31 December 2020 and the prior period interim financial statements for the half year ended 30 June 2020 were disclaimed by the predecessor auditor. We were unable to obtain sufficient appropriate audit evidence regarding the comparative information in the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows. As a result, we are qualifying on the comparative information in the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows.

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the interim financial statements of the current period. These matters were addressed in the context of our audit of

the interim financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the *Basis for Qualified Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report.

1. Valuation of Inventory

Area of focus	How our audit addressed the area of focus
Refer to Note 3 (Critical accounting judgements, estimates and assumptions), Note 9 (Inventories) The Group holds inventory amounting to $3,305,000 which is significant to the financial statements. Inventory is required to be carried at the lower of its cost and net realisable value. The valuation of inventory involves a degree of estimation and judgement by management Because of the high level of estimation and judgement involved, and the significant carrying balance, we have determined that this is a key area that our audit has focused upon.	**Our audit procedures included:** • obtaining an understanding and assessing key controls over the valuation of inventory • evaluating management's judgement and assumptions used in determining the need for an inventory provision. • reviewing subsequent inventory sales to ensure inventory was valued at the lower of cost and net realisable value. • evaluating the aging of inventory and ensuring costs assigned to inventory were reasonable. We assessed the adequacy of the Group's disclosures in respect of Inventory.

2. Trade receivables – Expected credit losses

Area of focus	How our audit addressed the area of focus
Refer to Note 3 (Critical accounting judgements, estimates and assumptions), Note 8 (Trade and other receivables) Given the size of trade receivables, the historical issues with regards to fraud being uncovered and the general economic environment, it's prudent to review management's estimate of expected credit losses (ECL) to ensure it appears reasonable.	**Our audit procedures included:** • obtaining an understanding and assessing whether the methodology applied by management in their ECL model is in accordance with the requirements of AASB 9. • assessing the mathematical accuracy of the model. • assessing the integrity of method, assumptions and data used by management in its assessment of the underlying risk of ECL's • assessing the impact of the COVID-19 pandemic on the loss rates along with forward-looking factors in the measurement of the ECL • assessing the adequacy of the provision by comparing the post period end cash receipts to the outstanding trade receivables at year end. Reviewing the adequacy of financial statement disclosures

3. Impairment of non-current assets	
Area of focus	**How our audit addressed the area of focus**
Refer also to Note 3 (Critical accounting judgements, estimates and assumptions), Note 10 (Property, plant and equipment), Note 15 (Right-of-use assets) The Group identified an indicator of impairment with respect to the China CGU and as a result the recoverable amount of the CGU was determined. The recoverable amount was determined using a value-in-use model based on discounted cashflows of management's forecasts for sales and EBITDA. Due to the high level of judgement involved, and the significant carrying amounts, we have determined that the recoverable amount is a key area that our audit has focussed upon.	**Our audit procedures included:** • obtaining an understanding and assessing key controls over the preparation of the value-in-use model • obtaining an understanding of the method, assumptions and data used by management in the value-in-use model • testing the accuracy of the value-in-use model • assessing whether the method, assumptions and data used by management were appropriate, and • obtaining assistance from our own valuation specialists to assess whether the key assumptions, method and data were appropriate. Assessed the adequacy of the Group's impairment disclosures.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the interim financial statements that gives a true and fair view in accordance with AASB 134 Interim Financial Reporting and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the interim financial statements that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the interim financial statements, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the interim financial statements as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the interim financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is

sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the interim financial statements, including the disclosures, and whether the interim financial statements represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them, all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the interim financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

ShineWing Australia

ShineWing Australia
Chartered Accountants

Hayley Underwood
Partner

Melbourne, 11 March 2022