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 30 June 2023
Previous period:	For the half-year ended 30 June 2022

2. Results for announcement to the market

				$'000
Revenues from ordinary activities	down	20.3%	to	1,002
Underlying Earnings/(Loss) Before Interest and Taxes ('Underlying EBIT')	down	31.5%	to	(3,636)
Loss from ordinary activities after tax attributable to the owners of Phoslock Environmental Technologies Limited	down	20.6%	to	(5,165)
Loss for the half-year attributable to the owners of Phoslock Environmental Technologies Limited	down	20.6%	to	(5,165)

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 $5,165,000 (30 June 2022: loss $6,507,000)

The reconciliation of statutory net profit/(loss) after tax ('NPAT') to Underlying Earnings EBIT is outlined below:

	Consolidated	
	30 Jun 2023 $'000	30 Jun 2022 $'000
Revenue	1,002	1,258
Net Profit/(Loss) after Tax ('NPAT')	(5,165)	(6,507)
Add: Finance costs	15	6
Add: (Reversal)/impairment of receivables	(624)	254
Add: Impairment of assets	890	805
Add: Wind down expense	1,374	-
Add: Foreign exchange losses	67	148
Less: Interest revenue	(53)	(17)
Less: Gain on remeasurement of lease liabilities	(140)	-
Underlying EBIT*	(3,636)	(5,311)

* 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 effect to the underlying performance of the business. The Company believes that Underlying EBIT provides a better reflection 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 commentary on the results.

Basis of accounting

The ability of the Group to continue as a going concern and to meet its obligations as and when they fall due within the 12 months from the date of this report depends on its ability to raise significant additional funds. While the Group continues to explore sources for funding, there is no certainty that sufficient funds will be raised. In the absence of adequate funding or alternative transactions being provided or undertaken in a timely manner, the directors intend to put a resolution to shareholders for voluntary (solvent) winding-up of the Company.

As a result, the directors have determined that the going concern basis of accounting is no longer appropriate, meaning the interim financial statements have been prepared on a non-going concern basis. Refer to note 2 for further details on the basis of preparation.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	1.53	3.09

The net tangible assets calculation include the lease liabilities of $513,000 (30 June 2022: $871,000).

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 were subject to an review by the auditors and the audit review report is attached as part of the Interim Report with modified 'emphasis of matter' opinion issued in respect to the non-going concern basis of preparation.

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11. Attachments

Details of attachments (if any):

The Interim Report of Phoslock Environmental Technologies Limited for the half-year ended 30 June 2023 is attached.

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12. Signed

As authorised by the Board of Directors

Signed ______________________________ Date: 4 September 2023

Lachlan McKinnon
Managing Director
Melbourne

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 30 June 2023 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.

SW

SW Audit
Chartered Accountants

Hayley Underwood
Partner

Melbourne, 4 September 2023

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Phoslock Environmental Technologies Limited

ABN 88 099 555 290

Interim Report - 30 June 2023

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 half-year ended 30 June 2023.

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

David Krasnostein AM - Chairman and Non-Executive Director
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 $5,165,000 (30 June 2022: loss $6,507,000).

Underlying Earnings/(Loss) Before Interest and Tax ('Underlying EBIT') for the year is as follows:

	Consolidated	
	30 Jun 2023 $'000	30 Jun 2022 $'000
Revenue	1,002	1,258
Net Profit/(Loss) after Tax (‘NPAT’)	(5,165)	(6,507)
Add: Finance costs	15	6
Add: (Reversal)/impairment of receivables	(624)	254
Add: Impairment of assets	890	805
Add: Wind down expense	1,374	-
Add: Foreign exchange losses	67	148
Less: Interest revenue	(53)	(17)
Less: Gain on remeasurement of lease liabilities	(140)	-
Underlying EBIT*	(3,636)	(5,311)

* 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 effect to the underlying performance of the business. The Company believes that Underlying EBIT provides a better reflection of its financial performance by facilitating a more representative comparison of financial performance between financial periods.

Operating results
Revenue for the period was $1,002,000, which was down 20% on the $1,258,000 generated in the prior corresponding period. The decrease was primarily as a result of project delays converting to contracts and a slower than expected ramp up of new projects. The Company continued to execute on its diversification strategy of balancing the sales mix away from China, with the majority of sales generated across South America and modest contributions in Europe, ANZ, USA and China.

Gross profit was $531,000 for the six months (6 months to 30 June 2022: $715,000). The gross profit margin was 53%, down from the prior period’s 56% as a result of increased sales to distribution partners and fluctuating freight rates within the period.

Underlying EBIT for the period was a loss of $3,636,000 compared to loss of $5,311,000 in the prior corresponding period. Despite lower sales and margin, the business actively addressed cost by reducing administration and corporate costs providing the efficiencies gained from right sizing the business. While some ongoing legacy issue investigation costs were incurred, these trended much lower than in prior corresponding period.

Capacity expansion at the Group's Chinese manufacturing facility was largely completed during the period, with the remaining investment associated with this project likely to be under $100,000.

NPAT for the six months amounted to a loss of $5,165,000. This compared to a NPAT loss of $6,507,000.

Cash Flows

Operating Cash Flow for the six months period was a cash outflow of $3,499,000 (6 months to 30 June 2022: outflow of $4,507,000), representing $1,004,000 lower cash outflow from the previous period.

Cash payments from customers for the six month period were $1,694,000 (6 months to 30 June 2022: $3,303,000). Cash payments to suppliers, consultants and employees for the six month period was $5,247,000 (6 months to 30 June 2022: $8,099,000). The decrease in cash outflow relates primarily to lower employee payments and reduced manufacturing related activity. As mentioned previously, the Group incurred significantly lowered legal and consulting expenses incurred as a result of the fraud and mismanagement investigations. The Group continued to incur expenses in government lobbying and the Company's manufacturing/supply chain strategy within the period.

Spending on new plant, equipment, and intangibles for the six months to 30 June 2023 totalled $374,000. This was mainly for the Chinese manufacturing facilities, R&D related activity and costs associated with patent applications.

Financial position

The ability of the Group to continue as a going concern and to meet its obligations as and when they fall due within the 12 months from the date of this report depends on its ability to raise significant additional funds. While the Group continues to explore sources for funding, there is no certainty that sufficient funds will be raised. In the absence of adequate funding or alternative transactions being provided or undertaken in a timely manner, the directors intend to put a resolution to shareholders for voluntary (solvent) winding-up of the Company.

As a result, the directors have determined that the going concern basis of accounting is no longer appropriate, meaning the interim financial statements have been prepared on a non-going concern (i.e. a realisation basis). Refer to note 2 for further details on the basis of preparation.

Under the non-going concern basis of accounting, assets are written down to their estimated net realisable value, (where relevant), and liabilities are stated at their estimated settlement amounts and relevant estimates are reviewed and adjusted as appropriate. All assets and liabilities are presented as current.

As at 30 June 2023 net current asset position of the Group totalled $9,536,000.

As at 30 June 2023, the Group had no external loan facilities.

Significant changes in the state of affairs

As stated above, in the absence of additional funding or alternative transactions being provided or undertaken in a timely manner, the directors intend to put a resolution to shareholders for voluntary (solvent) winding-up of the Company. Directors have resolved that a voluntary liquidation is in the best interest of shareholders, to maximise the prospects of an orderly winding up of the Company, and to avoid the risk of insolvent trading in the future reporting period. An orderly liquidation also gives shareholders, creditors, and directors the opportunity to have an independent expert to manage the process and maximise returns to stakeholders.

There were no other 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.

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

David Krasnostein
Chairman

4 September 2023
Melbourne

Phoslock Environmental Technologies Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 30 June 2023

	Note	Consolidated 30 Jun 2023 $'000	Consolidated 30 Jun 2022 $'000
Revenue			
Sales revenue	4	1,002	1,258
Cost of sales		(471)	(543)
Gross profit		531	715
Other income	5	186	229
Interest revenue calculated using the effective interest method		53	17
Expenses			
Distribution		6	(37)
Marketing		(168)	(92)
Occupancy		(29)	(247)
Director, listing and professional fees		(1,637)	(3,246)
Administration		(2,452)	(2,781)
Reversal/(impairment) of receivables	7	624	(254)
Impairment of assets	6	(890)	(805)
Wind down expense	13	(1,374)	-
Finance costs	6	(15)	(6)
Loss before income tax expense		(5,165)	(6,507)
Income tax expense		-	-
Loss after income tax expense for the half-year attributable to the owners of Phoslock Environmental Technologies Limited		(5,165)	(6,507)
Other comprehensive (loss)/income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		60	(21)
Other comprehensive (loss)/income for the half-year, net of tax		60	(21)
Total comprehensive loss for the half-year attributable to the owners of Phoslock Environmental Technologies Limited		(5,105)	(6,528)
		Cents	Cents
Basic loss per share	17	(0.83)	(1.04)
Diluted loss per share	17	(0.83)	(1.04)

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 30 June 2023

	Note	Consolidated 30 Jun 2023 $'000	Consolidated 31 Dec 2022 $'000
Assets			
Current assets			
Cash and cash equivalents		10,305	14,456
Trade and other receivables	7	975	681
Inventories	8	1,821	2,420
Financial assets		100	127
Property, plant and equipment	9	-	-
Right-of-use assets	10	-	-
Other assets		576	433
Total current assets		13,777	18,117
Total assets		13,777	18,117
Liabilities			
Current liabilities			
Trade and other payables	12	1,618	2,104
Contract liabilities		283	2
Lease liabilities		513	491
Employee benefits		260	208
Provisions	13	1,567	-
Total current liabilities		4,241	2,805
Non-current liabilities			
Lease liabilities		-	464
Employee benefits		-	19
Provisions	13	-	188
Total non-current liabilities		-	671
Total liabilities		4,241	3,476
Net assets		9,536	14,641
Equity			
Issued capital	14	92,398	92,398
Reserves		1,188	1,128
Accumulated losses		(84,050)	(78,885)
Total equity		9,536	14,641

Refer to note 2 for the non-going concern basis of preparation.

Phoslock Environmental Technologies Limited
Consolidated statement of changes in equity
For the half-year ended 30 June 2023

Consolidated	Issued capital $'000	Foreign currency translation reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 January 2022	92,398	1,092	(67,673)	25,817
Loss after income tax expense for the half-year	-	-	(6,507)	(6,507)
Other comprehensive loss for the half-year, net of tax	-	(21)	-	(21)
Total comprehensive loss for the half-year	-	(21)	(6,507)	(6,528)
Balance at 30 June 2022	92,398	1,071	(74,180)	19,289

Consolidated	Issued capital $'000	Foreign currency translation reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 January 2023	92,398	1,128	(78,885)	14,641
Loss after income tax expense for the half-year	-	-	(5,165)	(5,165)
Other comprehensive income for the half-year, net of tax	-	60	-	60
Total comprehensive (loss)/income for the half-year	-	60	(5,165)	(5,105)
Balance at 30 June 2023	92,398	1,188	(84,050)	9,536

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 30 June 2023

	Consolidated	
	30 Jun 2023 $'000	30 Jun 2022 $'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	1,694	3,303
Payments to suppliers and employees (inclusive of GST)	(5,247)	(8,099)
Government grants and incentives received	-	272
Interest received	54	17
Net cash used in operating activities	(3,499)	(4,507)
Cash flows from investing activities		
Payments for property, plant and equipment	(317)	(176)
Payments for intangibles	(57)	(69)
Net cash used in investing activities	(374)	(245)
Cash flows from financing activities		
Repayment of lease liabilities	(331)	(510)
Net cash used in financing activities	(331)	(510)
Net decrease in cash and cash equivalents	(4,204)	(5,262)
Cash and cash equivalents at the beginning of the financial half-year	14,456	22,991
Effects of exchange rate changes on cash and cash equivalents	53	(194)
Cash and cash equivalents at the end of the financial half-year	10,305	17,535

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 ('Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year (together referred to in these financial statements as the 'Group'). 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 Victoria 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 4 September 2023.

Note 2. Material accounting policy information

These general purpose financial statements for the interim half-year reporting period ended 30 June 2023 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 2022 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 accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated below.

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. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

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

Basis of preparation

The ability of the Group to continue as a going concern and to meet its obligations as and when they fall due within the 12 months from the date of this report depends on its ability to raise additional funds. While the Group continues to explore sources for funding, there is no certainty that sufficient funds will be raised. In the absence of adequate funding or alternative transactions being provided or undertaken in a timely manner, the directors intend to put a resolution to shareholders for voluntary (solvent) winding-up of the Company. It is for this reason directors have determined that the going concern basis of accounting is no longer appropriate, meaning the financial statements have been prepared on a non-going concern basis ie a realisation basis.

Under the non-going concern basis of accounting, the Group has continued to apply accounting policies consistent with those applied at 31 December 2022.

Under the non-going concern basis of accounting, all assets and liabilities are classified as current, reflecting the expected timing of realisation or settlement. In adopting the non-going concern basis of accounting, the directors have continued to apply the disclosure requirements of Australian Accounting Standards.

Comparative information has not been restated, and is measured and presented on a going concern basis.

Note 2. Material accounting policy information (continued)

As at 30 June 2023, the net current assets of the Group totalled $9,536,000 including cash of $10,305,000. At balance date, the Group had no external loan facilities.

Note 3. 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 Maker ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

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

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

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

Corporate charges are allocated to reporting segments 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.

Note 3. Operating segments (continued)

Operating segment information

Consolidated - 30 Jun 2023	Australia/NZ $'000	Europe/UK $'000	US/Canada/ Brazil $'000	China $'000	Eliminations $'000	Total $'000
Revenue						
Sales to external customers	280	107	864	-	(249)	1,002
Intersegment sales	2	-	-	374	(376)	-
Total revenue	282	107	864	374	(625)	1,002
EBIT	(2,536)	(352)	(271)	(483)	6	(3,636)
Interest revenue						53
Foreign exchange loss						(67)
Gain on remeasurement of lease liabilities						140
Reversal of impairment of receivables						624
Impairment of assets						(890)
Wind down expenses						(1,374)
Finance costs						(15)
Loss before income tax expense						(5,165)
Income tax expense						-
Loss after income tax expense						(5,165)
Assets						
Segment assets	526	337	961	11,317	636	13,777
Total assets						13,777
Liabilities						
Segment liabilities	4,392	287	1,922	9,295	(11,655)	4,241
Total liabilities						4,241

Note 3. Operating segments (continued)

Consolidated - 30 Jun 2022	Australia/NZ $'000	Europe/UK $'000	US/Canada/ Brazil $'000	China $'000	Eliminations $'000	Total $'000
Revenue						
Sales to external customers	140	92	987	39	-	1,258
Intersegment sales	517	-	-	691	(1,208)	-
Total revenue	657	92	987	730	(1,208)	1,258
EBIT	(4,028)	(405)	22	(808)	(92)	(5,311)
Interest revenue						17
Foreign exchange loss						(148)
Impairment of receivables						(254)
Impairment of assets						(805)
Finance costs						(6)
Loss before income tax expense						(6,507)
Income tax expense						-
Loss after income tax expense						(6,507)
Consolidated - 31 Dec 2022						
Assets						
Segment assets	1,902	132	1,007	12,373	2,703	18,117
Total assets						18,117
Liabilities						
Segment liabilities	4,098	103	1,747	9,681	(12,153)	3,476
Total liabilities						3,476

Note 4. Revenue

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

	Consolidated 30 Jun 2023 $'000	Consolidated 30 Jun 2022 $'000
Geographical regions		
Australia/NZ	280	140
Europe/UK	107	92
US/Canada/Brazil	615	987
China	-	39
	1,002	1,258
Timing of revenue recognition		
Goods transferred at a point in time	995	1,244
Services transferred at a point in time	7	14
	1,002	1,258

Note 4. Revenue (continued)

Seasonality of operations
The Group's sale of goods 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 5. Other income

	Consolidated	
	30 Jun 2023 $'000	30 Jun 2022 $'000
Gain on remeasurement of lease liabilities	140	-
Other	46	229
Other income	186	229

Gain on remeasurement of lease liabilities
The current reporting period includes non-cash adjustments to lease liabilities as a result of the Group signing a lease surrender with its landlord in relation to the head office building at The Como Centre in South Yarra. The lease surrender extinguishes the lease term and overall cost and is part of the ongoing effort to right-size the business. The move to smaller, more cost effective location will be subject to a future announcement.

Other
Other includes freight collected from customers for product transportation.

Note 6. Expenses

	Consolidated 30 Jun 2023 $'000	Consolidated 30 Jun 2022 $'000
Loss before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	144	6
Land and buildings right-of-use assets	50	54
Office equipment right-of-use assets	1	2
Total depreciation	195	62
Amortisation		
Patents and trademarks	18	7
Total depreciation and amortisation	213	69
Impairment of assets/(reversals)		
Inventories	672	93
Plant and equipment	224	171
Right-of-use assets	(51)	242
Patents	45	299
Total impairment	890	805
Finance costs		
Interest and finance charges paid/payable on lease liabilities	15	6
Net foreign exchange loss		
Net foreign exchange loss	67	148
Leases		
Short-term lease payments	-	1
Employee benefits expense		
Employee benefits expense excluding superannuation	1,671	1,940
Defined contribution superannuation expense	74	80
Total employee benefits expense	1,745	2,020

Note 7. Trade and other receivables

	Consolidated 30 Jun 2023 $'000	Consolidated 31 Dec 2022 $'000
Current assets		
Trade receivables	8,014	8,497
Less: Allowance for expected credit losses	(7,039)	(7,816)
	975	681

Allowance for expected credit losses
On August 25 the consolidated entity secured a part payment (RMB3 million, equating to approx. AU$624,000) in respect of a receivable associated with the Xingyun Lake project in China. The payment was made to PET's Beijing based subsidiary, Beijing Ecosystime Environmental Science and Technology Co., Ltd ("BEST").

Note 7. Trade and other receivables (continued)

This payment represents just under 10% of the principal owed with efforts continuing to secure the balance. The customer concerned has been subject to a court order in China, requiring payment of the full amount owing to PET. The receivable was initially impaired in PET's 2020 accounts. The portion received has been accounted for in the current period. Notwithstanding the positive outcome of a partial payment, the Company is yet to receive a credible payments plan for the balance of the receivable. It therefore remains management's judgment that the recoverability of outstanding accounts receivable for Xingyun Lake continues to be uncertain and the impairment provision remain.

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

Consolidated	Carrying amount 30 Jun 2023 $'000	Carrying amount 31 Dec 2022 $'000	Allowance for expected credit losses 30 Jun 2023 $'000	Allowance for expected credit losses 31 Dec 2022 $'000
Not overdue	341	556	-	-
0 to 3 months overdue	-	250	-	250
3 to 6 months overdue	11	11	-	-
Over 6 months overdue	7,662	7,680	7,039	7,566
	8,014	8,497	7,039	7,816

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

	Consolidated 30 Jun 2023 $'000	Consolidated 31 Dec 2022 $'000
Opening balance	7,816	8,062
Additional reversals recognised	(624)	(94)
Foreign exchange translation	(153)	(152)
Closing balance	7,039	7,816

Note 8. Inventories

	Consolidated 30 Jun 2023 $'000	Consolidated 31 Dec 2022 $'000
Current assets		
Raw materials - at cost	851	873
Less: Provision for impairment	(554)	-
	297	873
Finished goods - at cost	3,757	3,692
Less: Provision for impairment	(2,233)	(2,145)
	1,524	1,547
	1,821	2,420

As of 30 June 2023, raw material inventory has been valued at net realisable value ('NRV'). Management have determined that the amount detailed above is indicative of the value the business would receive upon sale.

Note 9. Property, plant and equipment

	Consolidated 30 Jun 2023 $'000	Consolidated 31 Dec 2022 $'000
Plant and equipment - at cost	2,583	2,040
Less: Accumulated depreciation	(663)	(519)
Less: Impairment	(1,920)	(1,521)
	-	-
Motor vehicles - at cost	66	66
Less: Accumulated depreciation	(66)	(66)
	-	-
Work-in-progress - at cost	176	529
Less: Impairment	(176)	(529)
	-	-
	-	-

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	Work-in-progress $'000	Total $'000
Balance at 1 January 2023	-	-	-
Additions	425	-	425
Transfer in/(out)	356	(356)	-
Disposals	(27)	-	(27)
Exchange differences	(30)	-	(30)
Impairment of assets	(580)	356	(224)
Depreciation expense	(144)	-	(144)
Balance at 30 June 2023	-	-	-

Note 10. Right-of-use assets

	Consolidated 30 Jun 2023 $'000	Consolidated 31 Dec 2022 $'000
Land and buildings - right-of-use	1,985	2,142
Less: Accumulated depreciation	(41)	(114)
Less: Impairment	(1,944)	(2,028)
	-	-
Office equipment - right-of-use	14	14
Less: Accumulated depreciation	(14)	(13)
Less: Impairment	-	(1)
	-	-
	-	-

Note 10. Right-of-use assets (continued)

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 January 2023	-	-	-
Additions	-	-	-
Reversal of impairment loss recognised	50	1	51
Depreciation expense	(50)	(1)	(51)
Balance at 30 June 2023	-	-	-

Impairment
As at 30 June 2023, under the non-going concern basis of accounting, assets are written down to their estimated net realisable value and thus all fully impaired. Consistent with disclosures made in the basis of preparation, in August 2023, the company received notice of surrender of the lease at the Como Building in South Yarra. This lease has been re-measured to reflect the expected balance of exiting the premise prior to the contractual lease termination date.

Note 11. Intangibles

	Consolidated 30 Jun 2023 $'000	Consolidated 31 Dec 2022 $'000
Non-current assets		
Patents - at cost	430	367
Less: Accumulated amortisation	(65)	(47)
Less: Impairment	(365)	(320)
	-	-

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

Consolidated	Patents $'000
Balance at 1 January 2023	-
Additions	63
Impairment of assets	(45)
Amortisation expense	(18)
Balance at 30 June 2023	-

Impairment
As at 30 June 2023, under the non-going concern basis of accounting, assets are written down to their estimated net realisable value and thus all fully impaired.

Note 12. Trade and other payables

	Consolidated	
	30 Jun 2023 $'000	31 Dec 2022 $'000
Current liabilities		
Trade payables	1,528	1,463
Accrued expenses	90	679
Other payables	-	(38)
	1,618	2,104

Note 13. Provisions

	Consolidated	
	30 Jun 2023 $'000	31 Dec 2022 $'000
Current liabilities		
Lease provisions	192	-
Wind down provision	1,375	-
	1,567	-
Non-current liabilities		
Lease provisions	-	188
	1,567	188

Lease provisions
During the prior period the Company's subsidiary in USA signed a development agreement with Advanced Casper, based in Wyoming USA. The agreement provided the option for the Group to establish a manufacturing facility in Casper Wyoming subject to a business case. As a consideration, the Group is obligated to pay up to $185,000 (in rental and outgoings) for 2 years. These amounts constitute all payments that the Group is obligated to pay for the Casper project should the business decide not to go ahead with project.

Wind down provision
This provision represents the estimated cost for statutory redundancies and notice periods for employees and leases being surrendered after balance date that will have crystalised and cannot be avoided.

Movements in provisions
Movements in each class of provision during the current financial half-year, other than employee benefits, are set out below:

Consolidated - 30 Jun 2023	Lease provisions $'000	Wind down provision $'000
Carrying amount at the start of the half-year	188	-
Additional provisions recognised	-	1,374
Foreign currency translation	4	1
Carrying amount at the end of the half-year	192	1,375

Note 14. Issued capital

	Consolidated			
	30 Jun 2023 Shares	31 Dec 2022 Shares	30 Jun 2023 $'000	31 Dec 2022 $'000
Ordinary shares - fully paid	624,390,509	624,390,509	92,398	92,398

Note 15. Dividends

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

Note 16. Contingent liabilities

The Group is continuing to assess regulatory, compliance and operational matters connected with its Chinese operations which may result in penalties or the Group incurring additional costs. These are discussed in more detail below. As at the date of this financial report it is not possible to measure any contingent 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 can be reliably measured.

Tax and Environmental Matters

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 financial statements. 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 the contingent obligation with sufficient reliability as it remains 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.

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

Regulatory authorities

As indicated in previous announcements and disclosures, the Company self-reported the suspected fraud and mismanagement issues identified by current management and entered into an Investigation Cooperation Agreement ('ICA') with the Australian Federal Police ('AFP') in November 2021. This agreement requires the Company to engage cooperatively with the AFP.

The Company's engagement with the AFP is ongoing. In accordance with the ICA between AFP and the Company, the Company has committed to cooperating with the AFP which will be a factor for the Commonwealth Director of Public Prosecutions ('CDPP') when deciding whether or not to prosecute the Company or offer it a Deferred Prosecution Agreement should that option become available under Australian Law. Even if the CDPP ultimately decides to prosecute the Company, the Company considers that its cooperation should also be a mitigating factor for sentencing purposes in respect of penalties to be imposed on the Company.

The ICA deals primarily with offences in the nature of bribery and foreign corruption. There are other offences and proceedings which may be of relevance to the Company's past actions, some of which are within the purview of the AFP, while others are the domain of other regulatory agencies.

The Company has also engaged in discussions with the Australian Securities and Investments Commission ('ASIC'). ASIC has made enquiries in relation to PET and its financial accounts that have been lodged with ASIC. The AFP has also referred certain allegations arising from the Company's engagement with the AFP under the ICA to ASIC for its consideration.

Note 16. Contingent liabilities (continued)

There is a risk that the Company will be exposed to judgments, fines and penalties arising from regulatory activity including the AFP's investigation and ASIC's inquiries that may have an adverse impact on its financial performance and financial position.

Claims by or against other persons involved in the Company's affairs
The 16 November 2021 and 25 May 2022 Announcements foreshadowed claims that may be brought by PET against individuals including former directors Zhigang Zhang and Rob Schuitema. The 16 September 2022 Announcement stated that "After carefully considering (1) inquiries and investigations currently on foot by regulators, with compulsory powers to access documents and information, (2) the significant resources that would be expended by the Company and its key personnel in pursuing these claims, (3) the quantum of potential compensation that could be obtained by the Company, should the claims be successful, the Company has determined to await the outcome of inquiries by regulatory agencies before the filing of legal claims against the aforementioned parties."

The Company notes that in many circumstances, the initiation of a claim can accelerate or heighten the prospect of counterclaims, or of separate claims relating to similar matters. In this regard, and more generally in relation to the prospect of claims being made against the Company, the Company makes the following statements:

(1) The Company has not received any third-party claims, or letters of demand relating to these matters.
(2) As far as the Company is aware, no proceedings have been filed against it in relation to these matters.
(3) If any claims are made against the Company, or if these risks progress or develop, the Company will continue to keep shareholders appraised of such developments in a timely manner, and in accordance with the law and the ASX Listing Rules.

Further, following the fraud and mismanagement issues, the Company has been, and continues to be, exposed to a higher risk of being involved in proceedings, claims and disputes, whether initiated by the Company or persons previously involved with the Company's affairs. Any litigation, claim or dispute relating to the Company's past fraud and mismanagement issues may have an adverse impact on the financial performance and financial position of the Company.

Note 17. Earnings per share

	Consolidated	
	30 Jun 2023 $'000	30 Jun 2022 $'000
Loss after income tax attributable to the owners of Phoslock Environmental Technologies Limited	(5,165)	(6,507)
	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 loss per share	(0.83)	(1.04)
Diluted loss per share	(0.83)	(1.04)

Note 18. Share-based payments

Supplier performance rights
On 14 April 2023, the Company granted 2,700,000 unquoted supplier performance rights to one of its suppliers, Water Warriors Inc. The unquoted performance rights has a deemed issue price of nil cents per rights and exercise price of nil cents. The supplier performance rights are subject to certain performance and time hurdles. The 2,700,000 performance rights is conferring entitlement to be issued one fully paid ordinary shares in the Company at the exercise price in two tranches: tranche 1: 1,900,000 performance rights and tranche 2: 1,800,000 performance rights. The performance rights will vest subject to performance condition being met as follows:

Note 18. Share-based payments (continued)

	Tranche 1 - 1,900,000 supplier performance rights	Tranche 2 - 1,800,000 supplier performance rights
Performance conditions - performance hurdle	The Company or its subsidiaries in aggregate has invoiced sales of Phoslow of not less than $1,740,000 (approximately 90 tonnes) for the period 1 January 2023 to 31 December 2023).	The Company or its subsidiaries in aggregate has invoiced sales of Phoslow of not less than $3,085,000 (approximately 160 tonnes) for the period 1 January 2024 to 31 December 2024).
Performance conditions - time hurdle	The supplier remaining as a supplier to the Company or its subsidiaries until 1 March 2024.	The supplier remaining as a supplier to the Company or its subsidiaries until 1 March 2025.
Expiry date	1 June 2024	1 June 2025

The share-based payments in relation to the supplier performance rights is $nil as of 30 June 2023.

The supplier performance rights granted during the current financial half-year is measured at expected settlement amount of $nil.

Based on YTD sales and the projected sales for the remainder of the respective periods, management has assumed that the performance hurdle for each tranche will not be met.

Note 19. Events after the reporting period

Other than as otherwise disclosed in this report (including the Group’s requirements for future funding), no other matter or circumstance has arisen since 30 June 2023 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 30 June 2023 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, notwithstanding that the financial statements have been prepared on the non-going concern basis.

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

David Krasnostein
Chairman

4 September 2023
Melbourne

SW Accountants & Advisors

Take the lead

INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE MEMBERS OF PHOSLOCK ENVIRONMENTAL TECHNOLOGIES LIMITED

Conclusion

We have reviewed the half-year financial report of Phoslock Environmental Technologies Limited (the Company and its subsidiaries (the Group)) which comprises the consolidated statement of financial position as at 30 June 2023, the 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, material accounting policy information and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Phoslock Environmental Technologies Limited does not comply with the *Corporations Act 2001*, including:

a. giving a true and fair view of the Group's financial position as at 30 June 2023 and of its performance for the half-year ended on that date, and

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

Emphasis of matter – going concern no longer appropriate

Without qualifying our opinion, we draw attention to the use of the non-going basis in the preparation of the financial statements, as disclosed in Note 2. The directors have determined that in the absence of adequate funding or alternative transactions being provided or undertaken in a timely manner, that they intend to put a resolution to shareholders for voluntary (solvent) winding-up of the Company. As a result the financial statements have been prepared on a non-going concern basis.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company 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 annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibility of the Directors' for the Financial Report

The directors of Phoslock Environmental Technologies Limited 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* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year 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 2023 and its performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year 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.

SW

SW Audit
Chartered Accountants

Hayley Underwood
Partner

Melbourne, 4 September 2023