

28 February 2014

Companies Announcements Office  
Australian Securities Exchange

## **Aeris Environmental (ASX:AEI) Half Year Financial Report and ASX Appendix 4D**

### **HIGHLIGHTS**

- **New commitment for material increase in revenue in the Philippines**
- **Further validation of energy-saving opportunities, including early revenue potential**
- **Expansion of key partnership in cold storage and remediation, including national service footprint**
- **Commercial HVAC energy trial in significant Northern Australian shopping centre**
- **Validation with AerisGuard certified for use on all Australian Navy fleet**
- **First order from large international HVAC coil manufacturer in Asia**
- **Material international orders received in late December 2013 now in production**

### **Commentary**

The Company's total revenue for the six-month period to December 2013 was \$97,034; a decrease of 86% on the same period last year. However, there was a significant reduction in operating expenses by 27%. The net loss for the period increased by 110% to \$608,610. The net result, after repaying part of the arrears and bringing up-to-date various creditors' payments, is a cash-at-bank balance at the end of the half year of \$101,000, with additional unused lines of credit available to the Company.

Aeris received orders to the sum of \$332,000 from Japan, the Philippines and Singapore during the December 2013 quarter. These orders were not reflected in the sales revenue for the quarter and went into production in January 2014. They will be shipped out shortly.

As previously reported, Aeris has been actively focusing on the commercialisation of its broad technology portfolio. The Company is well advanced in negotiating potential transactions in the Asia Pacific region and Australia, and is targeting a material increase in revenues. Aeris is currently undertaking a series of meetings across the Asia Pacific region to support these near-term revenue objectives.

### **HVAC / Energy**

The Company continues to receive strong interest in its validated HVAC product portfolio, with a large number of new enquiries coming from offshore markets, particularly Asia. The SM Malls Group in the Philippines, a long-term customer, is actively scaling up its incorporation of the Company's technology into the broader cross-section of its operations, with a recent commitment to more than double the number of malls that will be treated with AerisGuard, to a total of 48. There has also been a commitment to expand the Aeris offering into that Group's other business interests, such as hotels, department stores and supermarkets. The SM Malls Group is the largest in the Philippines by market capitalisation and provides not only a meaningful opportunity for growth and revenue, but also acts as a leading reference site for its peers across the region.

The Company continues its local and international focus on validated energy savings, and early indications are that this could be a significant driver of future revenue and growth for Aeris. It has forged key, long-term partnerships with major energy performance, efficiency and consulting firms, and an active business development pipeline is currently being pursued. Energy is a key topic of interest around the globe and HVAC is the largest item of many commercial and industrial companies' peak demand and usage costs.

Aeris has successfully completed a remediation and indoor air quality improvement validation in a large Asian hospital, and anticipates further orders from this group. This installation is of such significance that it will serve as an international luminary site and centre of excellence for the Company's growing health care facility opportunities.

The Company has established key relationships with a number of long-standing, and in some cases multinational, technology providers and consultants. These partnerships provide a direct path to the market for the Aeris technologies and the Company is currently working on a key opportunity in a Northern Australian shopping centre. The data from this site, when combined with the Company's international experience with the SM Malls Group, will position the Company as a global leader in HVAC efficiency and indoor air quality.

Aeris continues to build relationships with groups that have both customer-facing sales capacity and pipeline, and back-end fulfilment capability. The Company is now leveraging the strengths of its partners and its own pipeline to offer an integrated solution to large-scale customers, incorporating energy reduction, improved efficiency and enhanced indoor air quality, and the extension of the usable life cycle of HVAC and cold storage assets.

### **Coatings**

During the half year, and carrying on to its present activities, Aeris has maintained a strong focus on the broad platform of its coating technologies. As previously reported, there remains a material legacy market for traditional heat exchange coatings but, equally, the market is moving to newer and more compact designs. The Company is highly focussed on securing a growing position in both these market opportunities and is pleased to note that it has received an initial order from a new, large OEM coil manufacturer based in Thailand.

The Company is now well advanced in its project to produce coatings that will more aggressively compete in the high-volume commodity end of the market, utilising innovation to drive both customer benefits and a highly cost-effective solution. A meaningful entry into the Chinese market for coatings and other Aeris technologies remains a priority for 2014, and the Company will be pursuing these objectives during current meetings in Asia.

Aeris' efforts in the micro-channel architecture applications continues to progress and many of the key challenges in providing the next generation technology has successfully been addressed by the Company's development programme. Currently, Aeris is collaborating with a highly-regarded Australian institution to potentially leapfrog its competitors with an additional and compelling feature of its micro-channel product line.

### **Cold Storage**

The Company has proven its performance in cold storage applications with many high profile clients and continues to support the expansion of this business. Aeris is determined to broaden its distribution network to address the potential for a significantly-enlarged customer base. To this end, the Company has grown its reach to large-scale distributors and re-sellers for its cold storage product lines, and believes that these commercial agreements, when fully scaled-up, will produce an enhanced and reoccurring revenue opportunity. There has recently been an in-principle agreement for a paid commercial trial from a leading global supermarket chain, providing further validation that the Company's novel and patented products are commercially attractive. The international expansion of the distribution network for the Aeris cold storage range remains a priority and will be closely aligned with the Company's increasing investment focus in the Asia Pacific region.

### **Hard Surface**

Awareness of the need for residual activity in hard surfaces across the spectrum of consumer, commercial and industrial applications continues to build globally. In collaboration with Lonza and other leading laboratories, Aeris has validated the performance of its propriety hard surface treatments. The Company has reached an in-principle agreement, and is currently drafting formal documentation with a well-known and successful overseas corporation. This group has a long history of launching and marketing successful consumer products internationally, with a network of company-owned stores in their home market, and major retail distribution partners in the United States, Europe and other important markets. Aeris will be supplying a fully-formulated product to this new customer and, based on the volumes of that customer's other leading products, sales should scale to material levels post-launch in 2014.

### **Mould**

Amongst the highest priorities of the Company for near-term revenue, is the global marketplace for mould remediation products that are environmentally-friendly, and have ongoing efficacy and activity. Aeris has been directing its efforts to achieve an early entry into several international markets and is particularly focussed on achieving claims that do not require extensive regulatory approval. The Company is currently validating the commercial application of its AerisGuard mould remediation products for disaster recovery. Broadly, Aeris believes it has a compelling opportunity here, and continues its focus on mould remediation for consumer, industrial and commercial application. The Company believes that its product's usage for porous surfaces, such as curtains, carpet, soft furnishing and dry walls, is unique and early market testing has shown a strong demand for a validated product with residual protection.

### **Bioactive Polymers**

Aeris is pleased to announce that it has successfully completed pre-production of its novel bioactive (polymer) films. Initial testing has been positive. These films provide a clear barrier protection capability together with anti-microbial properties across a wide range of commercial applications. The immediate priority is to secure commercial customers to tailor this unique capability into specific products to meet their needs. It is anticipated that there will be an early adoption within the healthcare market, which will prove the range of well-defined uses that currently exist from non-anti-microbial covers and sheathes. Commercial and industrial applications will be pursued initially in the Asia Pacific region. This will provide a potential entry into these large-scale markets via manufacturers that have an existing international customer base. The market opportunity in this area is global and the Company is now targeting well-defined customers that have direct access for these emerging product lines.

Aeris recognises both the resource challenges it faces, and indeed, the significant opportunities available to it for its broad clean, green technologies. To this end, the Company is directing its efforts towards early revenue, a broadening of activities in the Asia Pacific region, and a range of strategic relationships targeting growth and recurrent revenue. Aeris is actively evaluating its strategic opportunities to enable the Company to meet its true potential.

### **Aeris Environmental Ltd**

A handwritten signature in black ink, appearing to read "Peter Bush".

**Peter Bush**

Chief Executive Officer

# Appendix 4D

## Half Year Report

### for the six months ended on 31 December 2013

Name of entity

**AERIS ENVIRONMENTAL LTD** ABN: 19 093 977 336

**Half year report for the six months ended on 31 December 2013 (comparatives for the six months ended on 31 December 2012).**

#### Results for announcement to the market

Revenues from ordinary activities	down	86.4%	to	97,034
(Loss) from ordinary activities after tax attributable to members	up	110.4%	to	(608,610)
(Loss) from extraordinary items after tax attributable to members		-		-
Net (loss) for the period attributable to members	up	110.4%	to	(608,610)
Dividends (distributions)	Amount per security		Franked amount per security	
Final and interim dividends	Nil ¢		Nil ¢	
Previous corresponding period	Nil ¢		Nil ¢	

#### Brief Explanation of figures

Refer to attached 31 December 2013 Half-year Financial Report.

The Group applies international accounting standards in compiling financial report of the wholly owned foreign entity "Aeris Environmental LLC".

Net tangible assets per security with the comparative figure for the previous corresponding period.

#### NTA backing

	31 Dec 2013	31 Dec 2012
Net tangible asset backing per ordinary share	(1.40) cents	(0.17) cents

#### Audit qualification or review

The accounts were subject to review by the Auditors and the review report is attached as part of half year report.

#### Other comments

Refer to attached 31 December 2013 Half-year Financial Report



**Robert J Waring**  
Company Secretary  
28 February 2014



**Aeris Environmental Ltd**

**ABN 19 093 977 336**

**Half-year Financial Report**

**For the Half-year ended**

**31 December 2013**

# Aeris Environmental Ltd

## CORPORATE INFORMATION

ABN 19 093 977 336

### DIRECTORS

Maurie Stang, Chairman  
Bernard Stang, Non-executive Director  
Peter Bush, Alternate Director for M and B Stang  
Steven Kritzler, Non-executive Director  
David Fisher, Non-executive Director

### CHIEF EXECUTIVE OFFICER

Peter Bush

### COMPANY SECRETARY

Robert Waring

### REGISTERED OFFICE

Level 1, 5/26-34 Dunning Avenue  
Rosebery, NSW 2018

### SHARE REGISTER

Computershare Investor Services Pty Ltd

### STOCK EXCHANGE LISTING

Aeris Environmental Ltd Shares are listed on the Australian Securities Exchange (ASX code: AEI)

### BANKERS

ANZ Banking Group

### AUDITORS

UHY Haines Norton

# Aeris Environmental Ltd

## FINANCIAL REPORT FOR HALF-YEAR ENDED 31 DECEMBER 2013

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# Aeris Environmental Ltd

## DIRECTORS' REPORT

The Directors present their report on the consolidated entity consisting of Aeris Environmental Ltd (the Company) and its controlled entities together with the consolidated financial report for the half-year ended 31 December 2013.

## DIRECTORS

The names and details of the Company's Directors in office during the half year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Peter Bush (Chief Executive Officer and Alternate Director for M and B Stang)  
Maurie Stang (Non-Executive Chairman)  
David Fisher (Non-Executive Director)  
Steven Kritzler (Non-Executive Director)  
Bernard Stang (Non-Executive Director)

## PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the course of the financial period were:

- Provision of environmental maintenance services and products for application to air-conditioning and commercial refrigeration systems;
- Provision of site-specific water treatment remediations to industrial customers; and
- Further development and enhancement of the AerisGuard suite of technologies for application to the global Anti Microbial markets.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the nature of activities of the consolidated entity during the period.

## SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

In the opinion of the directors, no matters or circumstances have arisen since 31 December 2013 that have significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in future financial years.

## REVIEW OF OPERATIONS

Total Revenue for the six months period to December 2013 was \$97,034, a decrease of 86% on the same period last year. However there was a significant reduction in operating expenses by 27%. The net loss for the period increased by 110% to \$608,610.

During the half year Aeris has continued with the efforts to commercialise its key products with a clear focus on early revenue.

## LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The Auditor's Independence Declaration is set out in the attached statement from UHY Haines Norton and forms part of the Directors' Report for the half year ended 31 December 2013.

## DIVIDENDS

No dividends were proposed, declared or paid during the financial interim and to the date of this report (2012: Nil).

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



**Maurie Stang**

Chairman and Director

Sydney, 28 February 2014

# Aeris Environmental Ltd

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME For the half-year ended 31 December 2013

	Notes	December 2013 \$	December 2012 \$
<b>Continuing Operations</b>			
Revenues	2	97,034	414,681
Other Income	2	-	300,000
Cost of sales		(32,195)	(117,818)
Employee benefits expense		(227,404)	(244,586)
Occupancy expense		(48,536)	(180,082)
Depreciation and amortisation expense		(3,910)	(6,385)
Other general and administration		(192,691)	(182,862)
Sales, marketing and travel		(32,486)	(28,914)
Distribution expense		(19,566)	(31,416)
Product registration, patents, trade marks and R&D expenditure		(171,724)	(182,545)
Financial expense		(33,301)	(137,631)
<b>Loss before income tax expense</b>		<b>(664,778)</b>	<b>(397,558)</b>
Income tax benefit relating to ordinary activities		56,168	60,938
Loss from continuing operations after tax		(608,610)	(336,620)
<b>Discontinued Operations</b>			
Profit from discontinued operations		-	47,381
Net loss for the period		(608,610)	(289,239)
<b>Other Comprehensive income</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Foreign Currency Translation Differences		(5,758)	(458)
<b>TOTAL COMPREHENSIVE LOSS FOR THE HALF YEAR</b>		<b>(614,368)</b>	<b>(289,697)</b>
<b>Total comprehensive income attributable to members of Aeris Environmental Ltd.</b>		<b>(614,368)</b>	<b>(289,697)</b>
		<b>Cents</b>	<b>Cents</b>
Basic loss per share	7	(0.52)	(0.26)
Diluted loss per share	7	(0.52)	(0.14)
<b>Earnings per share from continuing operations</b>			
Basic loss per share		(0.52)	(0.30)
Diluted loss per share		(0.51)	(0.18)

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

# Aeris Environmental Ltd

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION As at 31 December 2013

	Notes	December 2013 \$	June 2013 \$
<b>CURRENT ASSETS</b>			
Cash assets		100,763	180,653
Trade and other receivables		25,799	98,403
Inventories		26,809	11,296
Other current assets		72,990	46,237
Assets classified as held for sale		-	-
<b>TOTAL CURRENT ASSETS</b>		<b>226,361</b>	<b>336,589</b>
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables		-	-
Plant and equipment		2,845	6,755
<b>TOTAL NON-CURRENT ASSETS</b>		<b>2,845</b>	<b>6,755</b>
<b>TOTAL ASSETS</b>		<b>229,206</b>	<b>343,344</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		279,634	561,885
Liabilities associated with assets held for sale		-	-
Interest-bearing liabilities	6	100,000	100,000
<b>TOTAL CURRENT LIABILITIES</b>		<b>379,634</b>	<b>661,885</b>
<b>NON-CURRENT LIABILITIES</b>			
Trade and other payables		-	21,998
Interest-bearing liabilities	6	1,500,000	700,000
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>1,500,000</b>	<b>721,998</b>
<b>TOTAL LIABILITIES</b>		<b>1,879,634</b>	<b>1,383,883</b>
<b>NET ASSETS</b>		<b>(1,650,428)</b>	<b>(1,040,539)</b>
<b>EQUITY</b>			
Capital		28,467,507	28,467,508
Reserves		1,155,697	1,156,978
Accumulated losses		(31,273,632)	(30,665,025)
Minority interest		-	-
<b>TOTAL EQUITY</b>		<b>(1,650,428)</b>	<b>(1,040,539)</b>

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

# Aeris Environmental Ltd

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY For the half-year ended 31 December 2013

	Issued Capital \$	Accumulated Losses \$	Minority Interest \$	Other Reserves \$	Total Equity \$
<b>At 1 July 2012</b>	<b>26,227,858</b>	<b>(29,532,863)</b>	<b>-</b>	<b>1,136,271</b>	<b>(2,168,734)</b>
Loss for the period	-	(289,239)	-	-	(289,239)
<i>Other comprehensive income for the half year</i>					
Foreign currency translation differences	-	-	-	(458)	(458)
<i>Transaction with owners in their capacity as owners</i>					
Issue of share capital	2,239,649	-	-	-	2,239,649
Movements in share based payments reserves	-	-	-	15,457	15,457
<b>At 31 December 2012</b>	<b>28,467,507</b>	<b>(29,822,102)</b>	<b>-</b>	<b>1,151,270</b>	<b>(203,325)</b>
<b>At 1 July 2013</b>	<b>28,467,508</b>	<b>(30,665,025)</b>	<b>-</b>	<b>1,156,978</b>	<b>(1,040,539)</b>
Loss for the period	-	(608,610)	-	-	(608,610)
<i>Other comprehensive income for the half year</i>					
Foreign currency translation differences	-	-	-	(5,758)	(5,758)
<i>Transaction with owners in their capacity as owners</i>					
Issue of share capital	-	-	-	-	-
Movements in share based payments reserves	-	-	-	4,478	4,478
<b>At 31 December 2013</b>	<b>28,467,508</b>	<b>(31,273,635)</b>	<b>-</b>	<b>1,155,698</b>	<b>(1,650,429)</b>

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

# Aeris Environmental Ltd

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2013

	December 2013 \$	December 2012 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers (inclusive of GST)	168,763	348,836
Payments to suppliers and employees (inclusive of GST)	(1,071,637)	(958,921)
R&D tax offset	56,168	60,938
Rent received	-	93,557
Interest received	875	4,288
Interest paid	(28,301)	(3,191)
Other Income	-	-
<b>Net cash used in operating activities</b>	<b>(874,132)</b>	<b>(454,492)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Purchase) / disposal of fixed assets	-	38,400
<b>Net cash used in investing activities</b>	<b>-</b>	<b>38,400</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of shares	-	4,650
Proceeds from loan borrowings	2,350,000	600,000
Loan repayments	(1,550,000)	-
Repayment of convertible notes	-	(300,000)
<b>Net cash provided by financing activities</b>	<b>800,000</b>	<b>304,650</b>
Net increase / (decrease) in cash held	(74,132)	(111,442)
Cash at the beginning of the financial period	180,653	414,442
Effects of exchange rate changes on cash and cash equivalents	(5,758)	(432)
Cash at the end of the financial period	<b>100,763</b>	<b>302,568</b>

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

# Aeris Environmental Ltd

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2013

### 1 Statement of Accounting Policies

#### (a) Financial reporting framework

This Half Year Financial Report is a general purpose financial report that has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standard AASB 134 *Interim Financial Reporting*, Australian Accounting Interpretations and authoritative pronouncements of the Australian Accounting Standards Board. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting".

The Half Year Financial Report should be read in conjunction with the annual financial report of Aeris as at 30 June 2013. It is also recommended that the Half Year Financial Report be considered together with any public announcements made by the Company during the half-year ended 31 December 2013 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

The Half Year Financial Report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Company as the full Financial Report.

The Half Year Financial Report has been prepared on the basis of historical costs and does not take into account changing money values or fair values of assets.

The accounting policies which have been adopted in the preparation of this Financial Report have been consistently applied by the entities in the consolidated group and are consistent with those in the June 2013 Financial Report.

#### Going Concern

The Company has made operating losses of \$608,610 for the six months to 31 December 2013 (2012: \$336,620) and is in a net deficiency position of \$1,650,428 as at 31 December 2013 (30 June 2013: \$1,040,539). A liability for loans from three Directors of \$1,500,000 and an external loan of \$100,000 (total loans at 30 June 2013: \$800,000) are reflected in the overall net asset deficiency of \$1,650,428 (30 June 2013: \$1,040,539).

The operating cash burn rate for the half-year ended 31 December 2013 was \$874,132 (year ended 30 June 2013: \$670,219). The cash balance as at 31 December 2013 was \$100,763 (30 June 2013: \$180,653). If this cash burn rate continues, there may be an uncertainty in relation to the Company's ability to continue as a going concern.

The Directors have agreed that their loans will not be recalled in the next 12 months following the date of signed accounts, unless mutually agreed by the Board. The Company is also in dialogue for the external loan to be converted into shares.

The Non-Executive Directors Messrs M and B Stang and S Kritzler have pledged to provide financial support, in the ordinary course of business and if required, to the Company for at least the next 12 months from the date of this Report. Moreover, implementation of cost control and restructuring measures are expected to reduce the cash burn rate significantly.

As a consequence of the above the Directors are of the opinion that the Company will have adequate resources to continue to be able to meet its obligations as and when they fall due. For this reason they continue to adopt the going concern basis in preparing the Financial Report.

#### (b) Changes in accounting policies

The Consolidated Entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to their operations and effective for the current half-year.

New and revised Standards and amendments thereof and Interpretations effective for the current half-year that are relevant to the Group include:

##### *AASB 10 'Consolidated Financial Statements', AASB 2011-7*

Requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in AASB 127 'Consolidated and Separate Financial Statements' and INT-112 'Consolidation - Special Purpose Entities'.

##### *AASB 12 'Disclosure of Interests in Other Entities', AASB 2011-7*

Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

##### *AASB 119 'Employee Benefits' (2011), AASB 2011-10*

An amended version of AASB 119 'Employee Benefits' with revised requirements for pensions and other postretirement benefits, termination benefits and other changes.

##### *AASB 1053 'Application of Tiers of Australian Accounting Standards'*

These Standards together implement 'stage 1' of the AASB's revised differential reporting regime. AASB 1053 establishes a differential financial reporting framework consisting of two tiers of reporting requirements for general purpose financial statements:

- Tier 1: Australian Accounting Standards
- Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements ('RDR').

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior periods. However, the application of AASB 2011-9 has resulted in changes to the Group's presentation of, or disclosure in, its half-year financial statements.

# Aeris Environmental Ltd

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS For the half-year ended 31 December 2013

	December 2013 \$	Consolidated December 2012 \$
<b>2 Revenue and other income</b>		
<b>Revenues</b>		
Revenue from sales	96,159	316,836
Financial revenue	875	4,288
Rental income	-	93,557
Miscellaneous	-	-
Total revenue	<u>97,034</u>	<u>414,681</u>
<b>Other Income</b>		
Consideration on sale and licensing of Aeris Hygiene Services to Mycologia Pty Ltd*	-	300,000
Total other income	<u>-</u>	<u>300,000</u>

\* This transaction granted Mycologia an exclusive operating license to utilize the AerisGuard brand together with our Proprietary AerisGuard product range for the Australian cold storage segment. The sale included the purchase of certain of AHS's operating assets together with the relevant client base, agreements and work in progress as of the settlement date.

### 3 Expenses

#### Loss from ordinary activities before income tax expense includes:

Depreciation and amortisation	3,910	6,385
Research and development expenditure	171,724	182,545
Rental & occupancy expenses relating to operating leases	48,536	180,082
Share based payments	4,478	15,457
<i>Superannuation</i>		
Defined contribution superannuation expense	11,976	20,245

### 4 Segment Reporting

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

The reportable segments are based on aggregated operating segments determined by the similarity of the revenue stream and products sold and/or the services provided in USA, as these are the sources of the Group's major risks and have the most effect on the rates of return.

The Management reviews revenue, Cost of goods sold, operating expenses, profit before tax, assets and liabilities for the following segments:

- (a) Australian Sales - Sale of Aeris products from Australia
- (b) Australian Services - Services rendered in Australia
- (c) USA Operations - Sales and service on account of USA operations

#### Intersegment transactions

Intersegment transactions are made at arm's length and are eliminated on consolidation

#### Intersegment receivables, payables and loans

Intersegment loans are initially recognised at the consideration received and are eliminated on consolidation.

#### Operating segment information of the consolidated entity:

For half-year ended 31 December 2013	Australian Sales \$	Australian Services \$	USA Operations \$	Intersegment eliminations \$	Consolidated \$
<b>Revenue</b>					
Sales	93,341	-	39,351	(36,534)	96,159
Other Income	745	130	-	-	875
Total Revenue	<u>94,086</u>	<u>130</u>	<u>39,351</u>	<u>(36,534)</u>	<u>97,034</u>
<b>Expenses</b>					
Cost of goods sold	29,598	-	39,130	(36,534)	32,195
Operating expenses	608,449	91	79,471	41,607	729,618
Total Expenses	<u>638,047</u>	<u>91</u>	<u>118,602</u>	<u>5,073</u>	<u>761,812</u>
Loss before tax	<u>(543,961)</u>	<u>39</u>	<u>(79,250)</u>	<u>(41,607)</u>	<u>(664,778)</u>
<b>For half-year ended 31 December 2012</b>					
	\$	\$	\$	\$	\$
<b>Revenue</b>					
Sales	293,461	87,396	26,728	(3,353)	404,233
Other Income	396,976	69,823	-	-	466,799
Total Revenue	<u>690,437</u>	<u>157,219</u>	<u>26,728</u>	<u>(3,353)</u>	<u>871,032</u>
<b>Expenses</b>					
Cost of goods sold	94,435	43,364	26,736	(3,353)	161,182
Operating expenses	941,264	68,155	73,292	(22,685)	1,060,027
Total Expenses	<u>1,035,699</u>	<u>111,519</u>	<u>100,029</u>	<u>(26,038)</u>	<u>1,221,209</u>
Loss before tax	<u>(345,262)</u>	<u>45,700</u>	<u>(73,300)</u>	<u>22,685</u>	<u>(350,178)</u>

# Aeris Environmental Ltd

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS For the half-year ended 31 December 2013

### 4 Segment Reporting (continued)

#### Segment assets and liabilities

	Assets 31/12/2013 \$	Assets 31/12/2012 \$	Liabilities 31/12/2013 \$	Liabilities 31/12/2012 \$
Australia	407,374	950,709	3,685,606	2,963,817
North America	25,737	38,497	1,532,389	1,183,056
Total	433,111	989,206	5,217,995	4,146,873
Intersegment elimination	(203,906)	(1,514)	(3,338,361)	(2,955,855)
Unallocated	-	-	-	-
Consolidated	229,205	987,692	1,879,634	1,191,017

	Consolidated December 2013 \$	December 2012 \$
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### 5 Issues, repurchases and repayments of equity securities

#### Ordinary shares issued during the half-year reporting period

NIL (2012: NIL) shares via private placement to sophisticated investors	-	-
NIL (2012: 25,000) shares issued on exercise of options	-	4,650
NIL (2012: 11,117,724) shares towards conversion of convertible notes and interest	-	2,235,000

The Company issued NIL share options (2012: 20,000) under its share option plan during the half-year reporting period.  
For share options issued during 2012 half-year period, fair value at grant date was \$0.02 per option.

### 6 Interest Bearing and Contingent liabilities

#### Interest Bearing Liabilities

On 13 July 2009, the company announced a capital raising via a private placement of 12.5 million Convertible Notes which has raised \$2.5 million in additional working capital.

There was NIL Equity component on classification of Convertible Notes value in accordance with AASB 139.

The decision on the conversion of the note is at the discretion of the Noteholder.

Most of the convertible notes were either converted into shares or redeemed. One convertible note of \$100,000 was rolled into a short-term loan and is shown under current liabilities.

Interest bearing non-current liabilities represents the draw-down from the line of credit extended by Directors (Credit limit \$2,000,000):

Loan from Directors	1,500,000	450,000
Other borrowings from related entities	-	150,000
	<u>1,500,000</u>	<u>600,000</u>

These loans will accrue interest at ATO benchmark rates - currently 6.2% per annum.

#### Contingent liabilities

Since the last annual reporting date, there has been no change of any contingent liabilities or contingent assets.

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### 7 Earnings per Share

Basic loss per share (Cents)	<u>(0.52)</u>	<u>(0.26)</u>
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	<u>117,746,704</u>	<u>111,782,712</u>
Diluted loss per share (Cents)	<u>(0.52)</u>	<u>(0.14)</u>
Weighted average number of ordinary shares outstanding during the year used in calculation of diluted EPS	<u>118,246,704</u>	<u>112,282,712</u>
Loss attributable to ordinary shareholders of the Company	<u>(614,368)</u>	<u>(289,697)</u>
Interest on Convertible Notes - Liability Component	<u>5,000</u>	<u>134,440</u>
Net Loss attributable to ordinary shareholders of the Company for Diluted EPS	<u>(609,368)</u>	<u>(155,257)</u>

### 8 Events Subsequent to Reporting Date

There have been no matters or circumstances, which have arisen since 31 December 2013 that have significantly affected or may significantly affect:

- the operations, in financial years subsequent to 31 December 2013, of the consolidated entity; or
- the results of those operations;
- the state of affairs, in the financial years subsequent to 31 December 2013, of the consolidated entity.

# Aeris Environmental Ltd

## DIRECTORS' DECLARATION

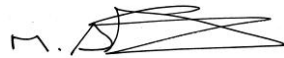
### Directors' Declaration

In the Directors' opinion:

- 1 the attached financial statements and notes thereto comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- 2 the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the financial half-year ended on that date; and
- 3 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) of the Corporations Act 2001.

On behalf of the Directors



**Maurie Stang**

Chairman and Director

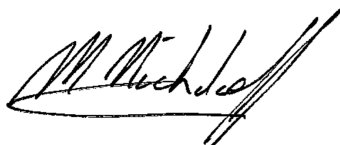
Sydney, 28 February 2014

**Auditor's Independence Declaration  
Under Section 307C of the Corporations Act 2001**

To the Directors of Aeris Environmental Ltd

I declare that, to the best of my knowledge and belief, during the half year ended 31 December 2013 there has 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.

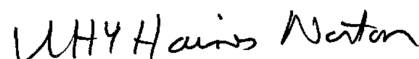


**M. D. Nicholaieff**

Partner

Sydney

28 February 2014



**UHY Haines Norton**

Chartered Accountants

## Independent auditor's review report

To the members of Aeris Environmental Ltd

### Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Aeris Environmental Ltd ("the company"), which comprises the condensed consolidated statement of financial position as at 31 December 2013 and condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement or description of accounting policies, other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

### Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half year financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 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. As the auditor of Aeris Environmental Ltd and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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.

### Independence

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

### Conclusion

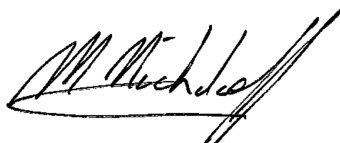
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Aeris Environmental Ltd is not in accordance with the Corporations Act 2001, including:

(i) Giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulation 2001.

### Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 in the financial report, which indicates that the consolidated entity incurred a net loss of \$608,610 for the half year ended 31 December 2013 and, as of that date, the consolidated entity's total liabilities exceeded its total assets by \$1,650,428. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

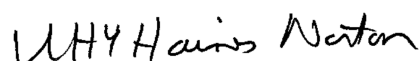


**M. D. Nicholaeff**

Partner

Sydney

Dated: 28 February 2014



**UHY Haines Norton**

Chartered Accountants