



# Annual Report 2014

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# Annual Report 2014

## FROM THE CHAIRMAN

On behalf of our Board, management and the Aeris team, the Chief Executive Officer and I are pleased to present the Company's Annual Report for the financial year ended 30 June 2014.

Aeris has significantly progressed along the path of the commercialisation of its platform technologies and products together with the launch of our pivotal SmartENERGY platform. The Company has successfully demonstrated that there is a high level of commercial opportunity in the application of its 'green' technologies in reducing energy and creating system efficiency, aiding materials protection, and improving indoor air quality and food hygiene.

Aeris has pursued a dual strategy of cost management leading to an overall lowering of financial loss, whilst applying its constrained resources to future growth drivers. It is noteworthy that these challenging objectives have been met by the team, and that the Company is ready to move into a new and potentially very rewarding phase of its activities focusing on recurrent and annuity revenue.

We take this opportunity to recognise the outstanding efforts of our new SmartENERGY team who have already demonstrated significant commercial and technical momentum. SmartENERGY brings a significant value proposition to its customers in terms of remarkable HVAC energy efficiency (improvements typically being 19-25%), short-term return on investment and a range of compelling systems performance improvements underpinned by outstanding product efficacy, proprietary measurement, verification and reporting.

The research and development (R&D) activities undertaken by Aeris and its associated research group have generated a new stream of innovation in our polymer, coatings, enzyme and smart surfaces technologies. Agreements have been

initiated on our new consumer mould product. Material late-stage negotiations are being finalised on a series of OEM coating transactions.

As a direct consequence of our 'smart' platforms, we have validated and now begun to commercialise our ability to reduce energy consumption, carbon emissions, extend asset performance and life, and critically deliver outcomes that have a meaningful and measurable impact on our customers' businesses.

Aeris has now engaged with multiple potential strategic partners who have large and accessible customer bases with identified needs for the Company's products. This critical transition from R&D and product development to a mature product portfolio, supported by strong intellectual property, lies at the heart of Aeris' plans for growth.

The Company is actively looking to extend its Board, has begun roadshows targeting Australian brokers and analysts, and is aiming to secure additional resources and staff members to address the inflection of opportunity that it is now experiencing.

Each of Aeris' proprietary technologies has a global market opportunity. The Company is staging its investments with a strong focus on Australia and New Zealand, and highly-targeted markets in the Philippines, China, Hong Kong and Singapore.

Today, the numerous challenges of energy costs, peak demand, microbial and biofilm control, and asset efficiency provide an unparalleled market opportunity for Aeris' proven solutions.



# OPERATIONS REPORT

## 2014 HIGHLIGHTS

- Negotiation (post balance date acquisition) of the business of Smartcool Systems Australia Pty Ltd.
- Independent validation of the SmartENERGY platform.
- Commercially-significant expansion of the AerisGuard long-life anti-microbial coatings platforms. Several new multimillion dollar applications have been identified and validated, with strategic distribution partners in place.
- Agreement for the expansion of the AerisGuard HVAC and cold storage businesses in the Philippines, Hong Kong, Singapore and China.
- Expanded distribution network for the AerisGuard range both domestically and internationally.
- New OEM manufacturing agreements for supply in the 2014-15 financial year.
- First international distributor for the consumer mould range. Shipments are to begin before the end of December 2014.
- Impressive technical results from the Lonza collaborative development on the AerisGuard hard surfaces platform.
- Expanded enzyme cleaning opportunities in the hospitality industry, including beer and beverages.
- Collaborative agreement with an industry leader for Smart Polymer production.
- Improved trading position for the 2013-14 financial year.

Aeris today has five key technology platforms, each with strong Intellectual Property, significant validation and now commercially-available products that address a number of megatrends in today's 'green tech' environment:

- SmartENERGY delivers dramatic energy savings and improved efficiency across air-conditioning and refrigeration systems with immediate cash flow savings.
- Smart Polymers, with permanent microbial resistance whilst being environmentally-friendly.
- Smart Surface disinfection solutions, with proven long-term residual efficacy.
- Smart Coatings that prevent mould and bacteria growth for the life of the product with both OEM and in-field applications.
- Smart Water, with the remediation of biofilm in circuits, including beverage and brewery.

The markets for energy and system efficiency, microbial control, materials protection and biological cleaning are maturing rapidly. Aeris has invested heavily in an unshakable belief that shareholder value can and will be created by focussing on novel and integrated solutions to our customers' challenges. The Company has established a growing network of customers and channels to the markets throughout Australia and the key regions of the Asia Pacific region. Our intellectual property has, and will continue to deliver, attractive margins. Aeris has activated a plan to drive revenue, enhance our position as a public company, scale our activities and deliver ever-increasing shareholder value.





# S M A R T

## SUSTAINABLE

ONGOING  
GUARANTEED  
ENERGY  
SAVINGS

## MANAGEMENT

OPTIMISATION  
NOT  
REPLACEMENT

## ANALYTICS

REAL-TIME  
CONTROL  
&  
REPORTING

## REMEDiation

CLEAN &  
GREEN  
LONG TERM  
PROTECTION

## TRUSTED

MEASUREMENT  
& VERIFICATION  
PROVING  
RESULTS

## MULTIPLE VALUE DRIVERS:

- » Proven, significant HVAC energy reduction. Typically 19-25% saving in electricity cost
- » Improved HVAC system efficiency -114% airflow increase in recent case
- » Improved indoor air quality -certified protection of coils
- » Reduced operational & maintenance costs - return to 'as new' efficiency
- » Prolonged equipment life -further reducing costs
- » Independent validated and certified -CSIRO, USA EPA,HACCP, EcoSpecifier

OPTIMISATION = EFFICIENCY = SAVINGS

## GUARANTEED MICROBIAL & MOULD PROTECTION

AerisGuard provides certified and guaranteed results and is the only validated and approved long term environmentally friendly protection for HVAC and refrigeration systems utilised in landmark buildings around the world.



Remediation and long term anti-microbial protection



Energy management and control system



Real-time analytics and reporting



# DIRECTORS' REPORT

The Directors of Aeris Environmental Ltd submit herewith the Annual Financial Report for the financial year ended 30 June 2014, in order to comply with the provisions of the Corporations Act 2001. The names and positions of the Directors and Company Secretary of the Company during or since the end of the financial year are:

## MAURIE STANG

### NON-EXECUTIVE CHAIRMAN

Mr Stang is Chief Executive Officer of the Regional Health Care group of companies and of Novapharm Research. He has over 30 years' track record of building and managing successful companies in the Australian healthcare market and extensive networks within the life-sciences and pharmaceutical sectors, both in Australia and internationally.

Since co-founding the Regional Health Care group, Mr Stang has been instrumental in building it into one of the region's leading healthcare product suppliers, with a key joint venture in the Australasian dental market and successful operating businesses across a range of medical, pharmaceutical and consumer healthcare sectors.

Director since 2002 – appointed Chairman 2002.

*Directorship of other listed companies held in the last three years: Chairman of Nanosonics Limited since November 2000.*

## DAVID FISHER

### NON-EXECUTIVE DIRECTOR

Dr Fisher has a first class honours degree in Rural Science, a PhD in Chemical Engineering from Sydney University and a Masters degree in Applied Finance and Investments from Finsia.

Dr Fisher is a founding partner of Brandon Capital Partners, a leading Australian venture capital provider. He has over two decades of extensive operating experience in the biotechnology and healthcare industry in Australia and overseas. Dr Fisher was CEO of Peptech Limited (now part of Cephalon Inc. [Nasdaq:CEPH]). During this period Peptech grew from a start up to having R&D operations in Australia, the UK, the US and manufacturing operations in Denmark.

Director from 2011 until his resignation on 31 July 2014.

*Directorship of other listed companies held in the last three years: Director of Nanosonics Limited since November 2001.*

## STEVEN KRITZLER

### NON-EXECUTIVE DIRECTOR

Mr Kritzler is the Technical Director of Novapharm Research. He has over 39 years of experience in commercial R&D in the areas of pharmaceutical, medical, cosmetic and specialty industrial products. Under Mr Kritzler's technical direction, Novapharm Research has become a world-leader in infection control science.

Mr Kritzler has an M.Sc from UNSW in the field of Polymer Chemistry and holds a number of international patents.

Director since 2002.

*Directorship of other listed companies held in the last three years: None.*

## BERNARD STANG

### NON-EXECUTIVE DIRECTOR

Mr Stang is co-founder and chairman of the Regional Health Care group of companies. He also chairs a number of private companies in the medical sector. Mr Stang manages a broad portfolio of investments in the private and listed sectors and has over 34 years of operational experience in the leadership of successful healthcare businesses.

Mr Stang is CEO of property development investment company Stangcorp Pty Ltd, which has been involved in various retail, commercial and industrial property transactions over the past 29 years. He graduated with a Bachelor of Architecture and gained significant large-scale project management and building experience prior to co-founding the Regional Health Care group of companies.

Director since 2002.

*Directorship of other listed companies held in the last three years: None.*

## PETER BUSH

### *CHIEF EXECUTIVE OFFICER, ALTERNATE DIRECTOR FOR M AND B STANG AND CHIEF FINANCIAL OFFICER*

Mr Bush is the Chief Financial Officer of The Regional Health Care Group (RHCG) and GryphonCapital. RHCG is one of the region's leading diversified healthcare product suppliers, with successful businesses across a range of medical, pharmaceutical, consumer healthcare and research & development sectors. GryphonCapital is an independent merchant bank that facilitates the financing and development of emerging health-care related entities. Mr Bush began his career working for five years at BDO, a global accounting and consulting firm, and has since spent a number of years working in industry. Mr Bush holds a number of private directorships and board positions.

Mr Bush holds a degree in Commerce from Macquarie University and a graduate diploma in Chartered Accounting from the Institute of Chartered Accountants in Australia. Mr. Bush is a member of the Institute of Chartered Accountants in Australia.

Alternate Director since 9 May 2011.

*Directorship of other listed companies held in the last three years: None.*

## COMPANY SECRETARY

Mr Robert J Waring BEc, CA, FCIS, FFin, FAICD was appointed to the position of Company Secretary in 2002. Mr. Waring's experience has been gained over 40 years in financial and corporate roles including over 20 years in company secretarial roles for ASX listed companies and over 20 years as a director of ASX listed companies. Mr. Waring has over 30 years experience in industry and prior to that, spent 10 years with an international firm of chartered accountants. He is a director of Oakhill Hamilton Pty Ltd, which provides secretarial and corporate advisory services to a range of listed and unlisted companies.



## Directors' meetings

The following table sets out the number of Directors' meetings and Committee meetings held during the financial year, and the number of meetings attended by each Director (while they were a Director):

	Board of Directors Meetings	Audit Committee Meetings	Corporate Governance Committee Meetings	Remuneration and Nomination Committee Meetings
Number of meetings held	8	2	1	1
Number of meetings attended				
Maurie Stang	8	1	1	1
David Fisher	7	-	1	1
Steven Kritzler	8	-	-	-
Bernard Stang	6	2	-	-
Peter Bush	8	-	-	-

In addition to the below meetings the Board and senior executives conduct formal management meetings in alternate months to Board meetings.

## Committee membership

As at the date of this report, the Company had an Audit Committee, a Corporate Governance Committee and a Remuneration and Nomination Committee of the Board of Directors. Members acting on the committees of the Board during the year were:

### *Audit Committee*

Maurie Stang  
Bernard Stang (Chairman)

### *Corporate Governance Committee*

Maurie Stang (Chairman)  
Bernard Stang  
David Fisher (Until 31 July 2014)

### *Remuneration and Nomination Committee*

Maurie Stang (Chairman)  
David Fisher

## Principal Activities

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

- Research, development, commercialisation of proprietary technologies and global distribution of the AerisGuard range of products
- Provision of full service air-conditioning and refrigeration remediations to commercial customers
- Provision of site-specific water treatment remediations to industrial customers

## Review of Operations

The results of the operations of the consolidated entity during the financial year were as follows:

	2014	2013
	\$	\$
Income	487,121	549,065
Expenses	(1,555,014)	(1,733,675)
Loss after income tax	(1,067,893)	(1,184,610)
Profit / (loss) from Discontinued operations	-	52,451
<b>Net Loss for the period</b>	<b>(1,067,893)</b>	<b>(1,132,159)</b>

For a comprehensive review of the Company's operational performance please refer to the attached Chairman's and Chief Executive Officer's Report.

## Dividends

The directors do not recommend the payment of a dividend in respect of the year ended 30 June 2014 (2013: Nil). No dividends have been paid or declared since the start of the financial year.

## Significant changes in state of affairs

There have been no significant changes in the state of affairs of the consolidated entity.

## Significant events after the balance date

On 1 July 2014 the Company signed a Memorandum of Understanding for the acquisition of the business of Smartcool Systems Australia Pty Ltd (Smartcool). Specifically, the Company acquired the staff, trading business, know-how and related distribution rights from Smartcool. As a consideration for the transaction, on 31 July 2014, the Company issued Chris Rogerson (CEO of Smartcool) and Scott Gregson (National Operations Manager of Smartcool) with 250,000 share options each, at an exercise price of 20 cents and 3-year vesting period. The issue of share options is subject to significant performance hurdles.

In the opinion of the directors, no other matters or circumstances have arisen since the end of the financial year 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.

## Likely developments and expected results

Disclosure of information other than that disclosed elsewhere in this report regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

## Environmental regulations

The economic entity is not subject to any significant environmental Commonwealth or State regulation in respect of its operating activities.

## Indemnification of officers and auditors

### Indemnification

The Company has Deeds of Access and Indemnity with each of the four Directors, by which the Company indemnifies each Director in relation to any liability incurred as a result of being a Director of the Company except where there is lack of good faith.

During or since the financial year, the Company has not indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

### Insurance premiums

During the financial year, the Company paid a premium in respect of a contract to insure its Directors and executives against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company.

## Proceedings on behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

The Company was not a party to any such proceedings during the year.

## Directors' Interests

Equity holdings	Ordinary shares	Options over ordinary shares
Maurie Stang	18,816,267	-
Bernard Stang	14,928,109	-
Steven Kritzler	7,331,609	-
David Fisher	25,000	-
Peter Bush	-	250,000

## Equity holdings transactions

The movement during the reporting period in the number of ordinary shares in Aeris Environmental Ltd held directly, indirectly, or beneficially by each specified Director and specified executive including their personally-related entities, are as follows:

2014 Shares	Number held 30 June 2013	Acquired during year	Sold during year	Issued on exercise of options	Number held 30 June 2014
<i>Specified directors</i>					
Maurie Stang	18,816,267	-	-	-	18,816,267
Bernard Stang	14,928,109	-	-	-	14,928,109
Steven Kritzler	7,331,609	-	-	-	7,331,609
David Fisher	25,000	-	-	-	25,000
Peter Bush	-	-	-	-	-
<i>Specified executives</i>					
Robert Waring	103,000	-	-	-	103,000
	<b>41,203,985</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>41,203,985</b>



Options	Number held 30 June 2013	Granted during year	Lapsed during year	Exercised during year	Number held 30 June 2014
<i>Specified directors</i>					
Maurie Stang	-	-	-	-	-
Bernard Stang	-	-	-	-	-
Steven Kritzler	-	-	-	-	-
David Fisher	-	-	-	-	-
Peter Bush	250,000	-	-	-	250,000
<i>Specified executives</i>					
Robert Waring	27,500	-	(27,500)	-	-
	<b>277,500</b>	<b>-</b>	<b>(27,500)</b>	<b>-</b>	<b>250,000</b>

2013 Shares	Number held 30 June 2012	Acquired during year	Sold during year	Issued on exercise of options	Number held 30 June 2013
<i>Specified directors</i>					
Maurie Stang	18,752,267	64,000	-	-	18,816,267
Bernard Stang	14,864,109	64,000	-	-	14,928,109
Steven Kritzler	7,331,609	-	-	-	7,331,609
David Fisher	-	-	-	25,000	25,000
Peter Bush	-	-	-	-	-
<i>Specified executives</i>					
Robert Waring	103,000	-	-	-	103,000
	<b>41,050,985</b>	<b>128,000</b>	<b>-</b>	<b>25,000</b>	<b>41,203,985</b>

Options	Number held 30 June 2012	Granted during year	Lapsed during year	Exercised during year	Number held 30 June 2013
<i>Specified directors</i>					
Maurie Stang	-	-	-	-	-
Bernard Stang	-	-	-	-	-
Steven Kritzler	-	-	-	-	-
David Fisher	375,000	-	(350,000)	(25,000)	-
Peter Bush	250,000	-	-	-	250,000
<i>Specified executives</i>					
Robert Waring	55,000	-	(27,500)	-	27,500
	<b>680,000</b>	<b>-</b>	<b>(377,500)</b>	<b>(25,000)</b>	<b>277,500</b>

## Loans with specified directors and specified executives.

Refer note 27 for information on loan transactions with specified directors and specified executives.

## Share options

### *Options granted to directors and officers of the company*

During or since the end of the 2014 and 2013 financial years, the Company has not granted options for no consideration over unissued ordinary shares in Aeris Environmental Ltd to any of its Directors and Officers as part of their remuneration.

Particular of options granted over unissued shares:	2014	2013
Options granted by the Company over unissued ordinary shares.	595,000	1,005,000
Shares issued in the period as the result of the exercise of options.	-	25,000
Options expired during the period.	410,000	1,577,000
Options granted during the period.	-	20,000

Full details of options on issue are shown in Note 19.

## Non-audit services

During the year UHY Haines Norton, the Company's auditor, performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the audit committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor.
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

### *Officers of the company who are former audit partners of UHY Haines Norton*

There are no officers of the company who are former audit partners of UHY Haines Norton.

## Auditors

UHY Haines Norton continues in office in accordance with section 327 of the Corporations Act 2001.

### *Auditor's Independence Declaration*

The Auditor's Declaration of Independence for the year ended 30 June 2014 is attached to this Directors' Report on page 15.

## REMUNERATION REPORT (AUDITED)

### Key Management Personnel

The key management personnel of the Company comprise the Directors and Company Secretary only as follows:

#### *Directors*

Maurie Stang  
David Fisher (Until 31 July 2014)  
Bernard Stang  
Steven Kritzler  
Peter Bush (Alternate Director and Chief Executive Officer)

#### *Company Secretary*

Robert Waring

### Remuneration policies

Details of Aeris' remuneration policies and practices, together with details of Directors' and Executives' Remuneration, are as follows:

#### *a. Overview of remuneration structure*

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. Processes have been established to ensure that the levels of compensation and remuneration are sufficient and reasonable, and explicitly linked to the achievement of personal and corporate objectives. The short and long-term incentive plans are specifically aligned to shareholder interests.

Aeris' Remuneration and Nomination Committee advises the Board on remuneration policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for staff, including Directors, the Company Secretary and Senior Managers of the Company.

The Committee has access to the advice of independent remuneration consultants to ensure the remuneration and incentive schemes are consistent with its philosophy as well as current market practices.

#### *b. Non-executive directors*

No payments were made during the year to any Non-Executive Director for their services. This is reviewed annually.

#### *c. Executives*

The objective of Aeris' executive reward system is to ensure that remuneration for performance is competitive and appropriate for the results delivered.

Executive pay structures include a base salary and superannuation. In addition, executives and senior managers can participate in the Employee Share Option Plan.

#### *d. Short-term incentive (STI) scheme*

Aeris has not established any STI scheme for its Key Management Personnel. During the financial year ended 30 June 2014 no amounts were paid as STIs.

#### *e. Share option based compensation*

In February 2005, Aeris established an Employee Share Option Plan (ESOP). The plan was approved by shareholders at the Annual General Meeting held on 25 November 2004.



Details of directors' and executive officers' remuneration for the year ended 30 June 2014

	Short term benefits		Post employment benefits	Equity based benefits			Value of options as proportion of total remuneration
	Salary and Director's Fees	STI Cash bonus	Super-annuation	Options (Note (iii))	Total	Performance related	
	\$	\$	\$	\$	\$	%	%
<i>Consolidated</i>							
<i>Non-Executive Directors</i>							
Maurie Stang	-	-	-	-	-	0.0%	0.0%
Bernard Stang	-	-	-	-	-	0.0%	0.0%
Steven Kritzler	-	-	-	-	-	0.0%	0.0%
<b>Total Non-Executive Directors</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>		
<i>Executive Directors</i>							
David Fisher	-	-	-	1,940	1,940	0.0%	100.0%
<b>Total Directors</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,940</b>	<b>1,940</b>		
<i>Executives</i>							
(Note (ii))							
Peter Bush	-	-	-	-	-	0.0%	0.0%
Robert Waring	36,819	-	-	-	36,819	0.0%	0.0%
<b>Total</b>	<b>36,819</b>	<b>-</b>	<b>-</b>	<b>1,940</b>	<b>38,758</b>		

Details of directors' and executive officers' remuneration for the year ended 30 June 2013

	Short term benefits		Post employment benefits	Equity based benefits			Value of options as proportion of total remuneration
	Salary and Director's Fees	STI Cash bonus	Super-annuation	Options (Note (ii))	Total	Performance related	
	\$	\$	\$	\$	\$	%	%
<i>Consolidated</i>							
<i>Non-Executive Directors</i>							
Maurie Stang	-	-	-	-	-	0.0%	0.0%
Bernard Stang	-	-	-	-	-	0.0%	0.0%
Steven Kritzler	-	-	-	-	-	0.0%	0.0%
<b>Total Non-Executive Directors</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>		
<i>Executive Directors</i>							
David Fisher	42,720	-	3,255	14,223	60,198	0.0%	23.6%
<b>Total Directors</b>	<b>42,720</b>	<b>-</b>	<b>3,255</b>	<b>14,223</b>	<b>60,198</b>		
<i>Executives</i>							
(Note (i))							
Peter Bush	-	-	-	6,639	6,639	0.0%	100.0%
Robert Waring	42,389	-	-	-	42,389	0.0%	0.0%
<b>Total</b>	<b>85,109</b>	<b>-</b>	<b>3,255</b>	<b>20,862</b>	<b>109,226</b>		

## Notes to the tables of details of directors' and executive officers' remuneration.

- i. "Executive Officers" are officers who are or were involved in, concerned in, or who take part in, the management of the affairs of Aeris and/or related bodies corporate.
- ii. The fair value of the options is calculated at the date of grant using a Black-Scholes model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options allocated to this reporting period. In valuing the options, market conditions have been taken into account in both the current and prior periods. Comparative information was not restated as market conditions were already included in the valuation.

The following factors and assumptions were used in determining the fair value of options on grant date.

Grant Date	Expiry Date	Fair value at grant date	Exercise price	Price of shares on grant date	Estimated volatility	Risk free interest rate
22-Nov-07	21-Nov-12	\$0.1900	\$0.65	\$0.38	68.0%	6.91%
22-Nov-07	21-Nov-12	\$0.1800	\$0.75	\$0.38	68.0%	6.91%
22-Nov-07	21-Nov-12	\$0.1600	\$1.00	\$0.38	68.0%	6.91%
20-Jun-08	08-Dec-12	\$0.1200	\$0.30	\$0.19	90.0%	7.59%
08-Dec-08	01-Sep-13	\$0.0027	\$0.40	\$0.10	32.9%	4.64%
08-Dec-08	01-Sep-13	\$0.0085	\$0.25	\$0.10	32.9%	4.64%
30-Jun-09	29-Jun-14	\$0.0473	\$0.20	\$0.16	36.4%	3.25%
17-Nov-11	17-Nov-16	\$0.0745	\$0.19	\$0.21	20.5%	5.00%
17-Nov-11	17-Nov-16	\$0.0869	\$0.17	\$0.21	20.5%	5.00%
26-Jul-12	23-Feb-17	\$0.0229	\$0.22	\$0.17	17.3%	5.00%

## Employment contracts

There are no other contracts to which a Director is a party or under which a Director is entitled to a benefit other than as disclosed above and in note 27 to the financial statements.

## Share options

250,000 options to take up ordinary shares in Aeris Environmental Ltd issued to key management personnel remain unexercised at 30 June 2014 (2013: 277,500 options).

No options were issued to key management personnel during the year ended 30 June 2014 (2013: Nil).

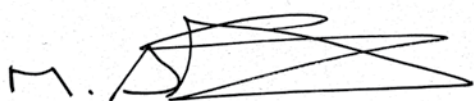
The following number of options issued to key management personnel expired or were forfeited during the year:

	2014	2013
Robert Waring	27,500	27,500
David Fisher	-	350,000

Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or any related body corporate or in the interest of any other registered scheme.

Signed in accordance with a resolution of the directors made pursuant to s. 298(2) of the Corporations Act 2001.

On behalf of the Directors



M STANG, Director  
Sydney, 15 September 2014



**Auditor's Independence Declaration under section 307C of the *Corporations Act 2001***

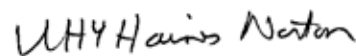
**To the Directors of Aeris Environmental Limited**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2014, there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.



**M. D. Nicholaieff**  
**Partner, Sydney**  
Dated 15<sup>th</sup> September 2014



**UHY Haines Norton**  
**Chartered Accountants**

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the financial year ended 30 June 2014

	Note	2014	2013
		\$	\$
<b>Continuing Operations</b>			
Revenue	4	487,121	549,065
Cost of sales		(157,711)	(194,305)
Gross profit		329,410	354,759
Other revenue	4	37,671	447,196
Administration expenses		(367,253)	(342,203)
Depreciation and amortisation expense	5	(4,821)	(12,835)
Distribution expense		(48,974)	(55,757)
Employee benefits expense	5	(446,845)	(526,108)
Financial expenses	5	(93,721)	(167,082)
Product Registration, Patents, Trade Marks and R&D Expenditure		(345,502)	(313,014)
Occupancy expenses		(89,472)	(299,231)
Provision for doubtful debt expense		(1,181)	(264,689)
Sales, Marketing and Travel expenses		(93,371)	(66,583)
<b>Loss before income tax from continuing operations</b>		<b>(1,124,061)</b>	<b>(1,245,548)</b>
Income tax benefit	6	56,168	60,938
<b>Loss from continuing operations after tax</b>		<b>(1,067,893)</b>	<b>(1,184,610)</b>
<b>Discontinued Operations</b>			
Profit / (Loss) from Discontinued operations	34	-	52,451
Net loss for the period		(1,067,893)	(1,132,159)
<b>Other Comprehensive Income</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Foreign currency translation differences		(822)	(5,220)
Items that will not be reclassified subsequently to profit or loss		-	-
<b>Total comprehensive loss for the period, net of tax</b>		<b>(1,068,715)</b>	<b>(1,137,379)</b>
<b>Loss for the period attributable to:</b>			
Owners of Aeris Environmental Ltd		(1,067,893)	(1,132,159)
Minority Interest	22	-	-
		<b>(1,067,893)</b>	<b>(1,132,159)</b>
<b>Total comprehensive loss for the period attributable to:</b>			
Owners of Aeris Environmental Ltd		(1,068,715)	(1,137,379)
Minority Interest	22	-	-
		<b>(1,068,715)</b>	<b>(1,137,379)</b>
<b>Earnings per share</b>			
Basic and diluted loss per share (cents per share)	7	<b>(0.91)</b>	<b>(0.99)</b>
<b>Earnings per share from continuing operations</b>			
Basic and diluted loss per share (cents per share)		<b>(0.91)</b>	<b>(1.03)</b>

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Note	2014	2013
		\$	\$
<i>Current assets</i>			
Cash and cash equivalents	9	161,937	180,653
Trade and other receivables	10	162,377	98,403
Inventories	11	21,893	11,296
Other current assets	12	40,105	46,237
<b>Total current assets</b>		<b>386,312</b>	<b>336,589</b>
<i>Non-current assets</i>			
Property, plant and equipment	13	5,687	6,755
<b>Total non-current assets</b>		<b>5,687</b>	<b>6,755</b>
<b>Total assets</b>		<b>391,999</b>	<b>343,344</b>
<i>Current liabilities</i>			
Trade and other payables	14	317,656	561,885
Interest bearing liabilities	15	100,000	100,000
<b>Total current liabilities</b>		<b>417,656</b>	<b>661,885</b>
<i>Non-current liabilities</i>			
Trade and other payables	16	28,222	21,998
Interest bearing liabilities	17	2,050,000	700,000
<b>Total non-current liabilities</b>		<b>2,078,222</b>	<b>721,998</b>
<b>Total liabilities</b>		<b>2,495,878</b>	<b>1,383,883</b>
<b>Net assets</b>		<b>(2,103,879)</b>	<b>(1,040,539)</b>
<i>Equity</i>			
Contributed equity	18	28,467,508	28,467,508
Reserves	20	1,161,530	1,156,978
Accumulated losses	21	(31,732,918)	(30,665,025)
<b>Total equity</b>		<b>(2,103,879)</b>	<b>(1,040,539)</b>

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 30 June 2014

	Equity	Reserves	Accumulated losses	Total attributable to equity holders of the entity
	\$	\$	\$	\$
<i>Balance at 1 July 2012</i>	<b>26,227,858</b>	<b>1,136,272</b>	<b>(29,532,866)</b>	<b>(2,168,735)</b>
<i>Transactions with owners in their capacity as owners:</i>				
Shares issued during year	2,239,650	-	-	2,239,650
Additions to share based payments reserve	-	25,926	-	25,926
Total comprehensive loss for the year	-	(5,220)	(1,132,159)	(1,137,379)
<i>Balance at 30 June 2013</i>	<b>28,467,508</b>	<b>1,156,978</b>	<b>(30,665,025)</b>	<b>(1,040,539)</b>
<i>Transactions with owners in their capacity as owners:</i>				
Shares issued during year	-	-	-	-
Additions to share based payments reserve	-	5,374	-	5,374
Total comprehensive loss for the year	-	(822)	(1,067,893)	(1,068,715)
<i>Balance at 30 June 2014</i>	<b>28,467,508</b>	<b>1,161,530</b>	<b>(31,732,918)</b>	<b>(2,103,879)</b>

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



# CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 30 June 2014

	Note	2014	2013
		\$	\$
<i>Cash flows from operating activities</i>			
Receipts from customers (inclusive of GST)		423,147	809,465
Payments to suppliers and employees (inclusive of GST)		(1,796,224)	(1,643,508)
R&D tax offset rebate received		56,168	60,938
Rent received		-	140,636
Interest and other income received		2,377	6,561
Interest paid		(84,902)	(44,312)
Export market development grant		35,294	-
Net cash used in operating activities	35 (c)	(1,364,140)	(670,220)
<i>Cash flows from investing activities</i>			
Sales / (purchase) of property, plant and equipment		<b>(3,754)</b>	<b>36,985</b>
<b>Net cash used in investing activities</b>		<b>(3,754)</b>	<b>36,985</b>
<i>Cash flows from financing activities</i>			
Proceeds from shares issue		-	4,650
Repayment of convertible notes		-	(300,000)
Loans		1,350,000	700,000
Net cash provided by financing activities		1,350,000	404,650
<i>Net (decrease) / increase in cash and cash equivalents</i>		(17,894)	(228,585)
<i>Cash and cash equivalents at the beginning of the financial year</i>		180,653	414,442
Effects of exchange rate changes on cash and cash equivalents		(823)	(5,203)
<i>Cash and cash equivalents at the end of the financial year</i>		<b>161,937</b>	<b>180,653</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 1. Summary of significant accounting policies

### *Corporate Information*

The financial report of Aeris Environmental Ltd (the Company) for the year ended 30 June 2014 was authorised for issue in accordance with a resolution of the Directors on 15 September 2014.

Aeris Environmental Ltd (the parent) is a company limited by shares incorporated in Australia whose shares are publicly listed on the Australian Stock Exchange (ASX code: AEI).

The nature of the operations and principal activities of the Group are described in the Director's Report.

### *Basis of preparation*

This financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report has been prepared on an accruals basis and is based on historical costs, modified where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

### *Going concern*

The Group has incurred an operating loss of \$1,067,893 for the year ended 30 June 2014 and has a net asset deficiency of \$2,103,879 as at 30 June 2014. A liability for loans from related parties of \$2,050,000 and an external loan of \$100,000 are reflected in the overall net asset deficiency of \$2,103,879.

The operating cash burn rate for the year ended 30 June 2014 was \$1,364,140. The cash balance as at 30 June 2014 was \$161,938. If the 2014 cash burn rate continues during the year ended 30 June 2015 there may be an uncertainty in relation to the company's ability to continue as a going concern.

The lenders of the related party loan have agreed that the loans will not be recalled in the next 12 months following the date of signed accounts. The company is also in dialogue for the external loan to be converted into shares.

The company's non-executive Directors have pledged to provide financial support to the Company for at least next 12 months from the date of signed accounts. 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.

### *Statement of Compliance*

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report

containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

### *New, revised or amending Accounting Standards and Interpretations adopted*

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

### *AASB 10 Consolidated Financial Statements*

AASB 10 establishes a new control model that applies to all entities. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. The amendment is effective from 1 January 2013 and has no effect on the Group's financial position, performance or its disclosures.

### *AASB 12 Disclosure of Interests in Other Entities*

New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates, structured entities and subsidiaries with non-controlling interests. The amendment is effective from 1 January 2013 and has no effect on the Group's financial position, performance or its disclosures.

### *AASB 13 Fair Value Measurement*

AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities and provides guidance on how to determine fair value when fair value is required or permitted. The amendment is effective from 1 January 2013 and has no effect on the Group's financial position, performance or its disclosures.

### *AASB 119 Employee Benefits*

The main change introduced by this standard is to revise the accounting for defined benefit plans. The revised standard also changes the definition of short-term employee benefits. The amendment is effective from 1 January 2013 and has no effect on the Group's financial position, performance or its disclosures.

## *AASB 2012-2 Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities*

AASB 2012-2 principally amends AASB 7 Financial Instruments: Disclosures to require disclosure of the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position, when all the offsetting criteria of AASB 132 are not met. The amendment is effective from 1 January 2013 and has no effect on the Group's financial position, performance or its disclosures.

## *AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement*

The consolidated entity has applied 2011-4 from 1 July 2013, which amends AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). Corporations and Related Legislation Amendment Regulations 2013 and Corporations and Australian Securities and Investments Commission Amendment Regulation 2013 (No.1) now specify the KMP disclosure requirements to be included within the Director's Report.

### *Significant accounting policies*

Accounting policies are selected and applied in a manner which ensures that the resultant financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions and other events are reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report and have been consistently applied unless otherwise stated.

#### *i. Business Combinations*

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired. The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if

any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

#### *ii. Borrowing Costs*

Borrowing costs include interest or finance charges in respect of finance leases. Interest payments in respect of financial instruments classified as liabilities are included in borrowing costs. Borrowing costs are expensed as incurred.

#### *iii. Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings as current liabilities in the balance sheet.

#### *iv. Comparative amounts*

Where necessary, comparative amounts have been changed to reflect changes in disclosures in the current year.

#### *v. Depreciation*

All assets have limited useful lives and are depreciated/ amortised using the straight line method over their estimated useful lives, taking into account residual values. Depreciation and amortisation rates and methods are reviewed annually for appropriateness. Depreciation and amortisation are expensed.

Depreciation and amortisation are calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life.

The following estimated useful lives are used in the calculation of depreciation.

– Computer equipment	2-3 years
– Computer software	3 years
– Field equipment	2-3 years
– Office furniture	5 years
– Plant and equipment	2-3 years
– Leasehold improvements	6 years
– Field equipment under finance lease	2-3 years
– Vehicles under finance lease	4 years



## vi. Earnings per share

### *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

### *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

## vii. Employee benefits

### *Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

### *Other long-term employee benefits*

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

### *Defined contribution superannuation expense*

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

### *Share-based payment*

Share-based compensation benefits are provided to employees via the Aeris Environmental Ltd Employee Option Plan. Information relating to these schemes is set out in Note 26.

The fair value of options granted under the Employee Option Plan is recognised as an employee benefit expenses with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

## viii. Financial assets

Financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are either:

- i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit; or
- ii) designated as such upon initial recognition, where they are managed on a fair value basis or to eliminate or significantly reduce an accounting mismatch. Except for effective hedging instruments, derivatives are also categorised as fair value through profit or loss. Fair value movements are recognised in profit or loss.

### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets, principally equity securities, that are either designated as available-for-sale or not classified as any other category. After initial recognition, fair value movements are recognised in other comprehensive income through the available-for-sale reserve in equity. Cumulative gain or loss previously reported in the available-for-sale reserve is recognised in profit or loss when the asset is derecognised or impaired.

## ix. Financial Instruments issued by the company

### *Debt and Equity Instruments*

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual agreement.

### *Interest*

Interest is classified as an expense consistent with the balance sheet classification of the related debt or equity instruments.

#### x. Financial liabilities

The Group classifies its financial liabilities as measured at amortised cost. The Group does not use derivative financial instruments in economic hedges of currency or interest rate risk. These financial liabilities include the following items:

Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Lease liabilities are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument and subsequently carried at amortised cost using the effective interest method.

#### xi. Foreign currency

##### *Foreign currency transactions*

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognised in statement of profit or loss and other comprehensive income in the period in which they arise.

##### *Group companies*

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

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates; and
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange difference arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in the foreign currency translation reserve. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the statement of profit or loss and other comprehensive income as part of the gain or loss on sale where applicable.

#### xii. Functional and presentation currency

The functional and presentation currency of Aeris Environmental Ltd and its Australian subsidiaries is Australian dollars (A\$).

Overseas subsidiaries use the currency of the primary economic environment in which the entity operates, which is translated to the presentation currency upon consolidation.

#### xiii. Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense.

Receivables and payables are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

#### xiv. Impairment of assets

At each reporting date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### xv. Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for

the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is accounted for using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### *Tax consolidation*

The company and all its wholly-owned Australian resident entities have entered into a tax consolidated group under Australian taxation law.

The company is the head entity in the tax-consolidated group comprising all the Australian wholly-owned subsidiaries set out in Note 23. The head entity recognises all of the current and deferred tax assets and liabilities of the tax consolidated group (after elimination of intragroup transactions)

#### *xvi. Inventories*

Inventories and raw materials are carried at the lower of cost and net realisable value. Costs are assigned on first in first out basis.

#### *xvii. Leases*

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

#### *xviii. Principles of consolidation*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Aeris Environmental Limited ('company' or 'parent entity') as at 30 June 2014 and the results of all subsidiaries for the year then ended. Aeris Environmental Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'. Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent. Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Subsidiaries are accounted for at cost in the separate financial statements of Aeris Environmental Ltd less any impairment charges.



#### xix. Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is probable that recovery will be received and the amount of the receivable can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

#### xx. Research and development

Research and development expenditure is expensed as incurred except to the extent that development expenditure recoverability is assured beyond reasonable doubt, in which case it is capitalised. Deferred development expenditure is amortised on a straight line basis over the period during which the related benefits are expected to be realised once commercial production has commenced.

#### xxi. Recoverable amount of non-current assets

The carrying amounts of non-current assets valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the reporting period in which it occurs.

Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets. In assessing recoverable amounts of non-current assets, the relevant cash flows have been discounted to their present value.

#### xxii. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

##### *Sale of goods and disposal of assets*

Revenue from the sale of goods and disposal of assets is recognised when the consolidated entity has passed the risks and rewards of the goods or assets to the buyer.

##### *Government grants*

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants related to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

##### *Interest income*

Interest income is recognised as it is accrued using the effective interest rate method.

##### *Other income*

Other income is recognised as it is earned.

#### xxiii. Share capital

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's ordinary shares are classified as equity instruments.

The Group is not subject to any externally imposed capital requirements.

#### xxiv. Borrowings and Convertible notes

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method if the impact is material to the financial report.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current

Convertible notes are separated into liability and equity components based on the terms of the contract.

On issuance of the convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond. This amount is classified as a financial liability measured at amortised cost (net of transaction costs) until it is extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in equity. Transaction costs are deducted from equity, net of associated income tax. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and equity components when the instruments are initially recognised.

#### xxv. Trade and other payables

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services. Trade accounts payable are normally settled within 30 days.

#### xxvi. Trade and other receivables

Trade and other receivables are recognised initially at fair value and generally due for settlement within 30 days. The collectibility



of debts is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is recognised in the income statement as financial expenses.

#### xxvii. Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 33.

#### xxviii. Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principle market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

## New accounting standards

Certain new accounting standards and interpretations have been published, relevant to the Group, that are not mandatory for 30 June 2014 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB	Summary	Impact on group
IFRS 15 Revenue from Contracts with Customers	IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.	No material impact
Amendments to IAS 16 and IAS 38	IAS 16 and IAS 38 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.	No material impact
AASB 9 Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities.	No material impact
AASB 2012-3 Offsetting Financial Assets and Financial Liabilities	AASB 2012-3 adds application guidance to AASB 132 Financial Instruments:  Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.	No material impact
AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments	The Standard contains three main parts and makes amendments to a number Standards and Interpretations.  Part A of AASB 2013-9 makes consequential amendments arising from the issuance of AASB CF 2013-1.  Part B makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 and also makes minor editorial amendments to various other standards.  Part C makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 Hedge Accounting into AASB 9 Financial Instruments.	No material impact
AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets	AASB 2013-3 amends the disclosure requirements in AASB 136 Impairment of Assets.  The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.	No material impact

## 2. Financial Risk Management

The Group's activities expose it to a variety of financial risks; market risk (including currency risk, credit risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

### *a. Foreign exchange risk*

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Group is exposed to foreign exchange risk predominantly arising from currency exposures to the US dollar on its loans to its overseas subsidiaries. Currency protection measures may be deemed appropriate in specific commercial circumstances and are subject to strict limits laid down by the Board. The Group has not entered into any foreign currency hedging contracts during the year.

### *b. Credit risk*

Credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity. There is negligible credit risk on financial assets of the Group since there is limited exposure to individual customers and the economic entity's exposure is limited to the amount of cash, short term deposits and receivables which have been recognised in the balance sheet.

### *c. Cash flow and fair value interest rate risk*

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

The Group has a significant interest-bearing liability of \$2,150,000, which comprises of loan from Directors \$2,050,000 and an external loan of \$100,000. Interest is charged @ 6.2% (ATO benchmark rates) on Directors' loan and 10% per annum on the external loan.

### *d. Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding to enable the company to operate as a going concern. The Board monitors liquidity on a monthly basis and management monitors liquidity on a daily basis.

## 3. Critical accounting estimates and judgements

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgments and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgments and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of

assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgments, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

The following critical estimates and judgments have been made in respect of the following items :

### *a. Impairment of non-financial assets other than goodwill*

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, economic and political environments and future product expectations. If an impairment trigger exists the recoverable amount of the asset is determined. Given the current uncertain economic environment management considered that the indicators of impairment were significant enough and as such these assets have been tested for impairment in this financial period.

### *b. Recovery of deferred tax assets*

Deferred tax assets are not recognised for deductible temporary differences until management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

### *c. Share-based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black & Scholes model, with the assumptions detailed in Note 26. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

### *d. Fair value of financial instruments*

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments

#### 4. Revenues

Revenue	2014 \$	2013 \$
Sales revenue	487,121	549,065
	<b>487,121</b>	<b>549,065</b>
<b>Other revenue</b>		
Interest - other entities	2,058	6,561
Rental income	-	140,636
Licensing revenue	-	300,000
Export Market Development Grant	35,294	-
Miscellaneous	319	-
	<b>37,671</b>	<b>447,196</b>

#### 5. Expenses

Loss before income tax includes the following items of expense:

	2014 \$	2013 \$
<b>Depreciation and amortisation expense</b>		
Amortisation of leasehold plant and equipment	260	1,060
Depreciation of plant and equipment	4,561	11,775
<i>Total depreciation and amortisation expense</i>	<b>4,821</b>	<b>12,835</b>
<b>Employment expenses</b>		
Base salary and fees	350,970	395,892
Superannuation & Statutory Oncosts	59,078	66,285
Share based payment expense (Note 26(a) )	5,375	25,926
Transfers from employee entitlements provisions	4,255	10,986
Other employee expenses	27,167	27,019
<i>Total employment expense</i>	<b>446,845</b>	<b>526,108</b>
<b>Financial expenses</b>		
Interest paid	93,721	167,082
	<b>93,721</b>	<b>167,082</b>
<b>Other expenses</b>		
Doubtful debts expense	1,181	264,689
Rental & Occupancy expenses	89,472	299,231
Research and development expenditure	345,502	313,014



## 6. Income Tax

### a. Income tax expense

The prima facie income tax benefit on pre-tax accounting loss reconciles to the income tax benefit in the financial statements as follows:

	2014	2013
	\$	\$
<i>Loss for year</i>	<b>(1,124,061)</b>	<b>(1,193,097)</b>
Income tax benefit calculated at 30%	(337,218)	(357,929)
Temporary differences and tax losses not recognised	335,606	350,151
Prior year adjustments	-	-
Other permanent differences		
- Non deductible expenses		
- Impairment of loans to subsidiaries	-	-
- Foreign exchange loss - unrealised	-	-
- Share based payments	1,613	7,778
- Sundry items	-	-
R&D tax offset rebate received	(56,168)	(60,938)
<i>Income tax benefit attributable to loss</i>	(56,168)	(60,938)

### b. Adjusted franking account balance

	2014	2013
	\$	\$
	-	-

### c. Deferred tax balances not recognised

Calculated at 30% not brought to account as assets:

	Balance Sheet		Income Statement	
	2014	2013	2014	2013
Deferred tax liabilities	\$	\$	\$	\$
Interest receivable	-	-	-	-
<b>Deferred tax assets</b>				
Tax losses				
Revenue tax losses available for offset against future tax income	5,256,665	5,129,460	127,205	309,644
<b>Temporary differences</b>				
Provision for doubtful debts	82,111	7,209	74,903	503
Provision for employee entitlements	16,223	8,347	7,876	(2,219)
Plant and equipment	2,575	3,097	(522)	3,687
<b>Accruals</b>	<b>6,840</b>	<b>6,750</b>	<b>90</b>	<b>-</b>
	<b>107,749</b>	<b>25,402</b>	<b>82,346</b>	<b>1,972</b>
<b>Total deferred tax assets</b>	<b>5,364,414</b>	<b>5,154,862</b>		
<b>Net deferred tax asset / (liability) not recognised</b>	<b>5,364,414</b>	<b>5,154,862</b>	<b>209,552</b>	<b>311,615</b>

### d. Tax consolidation

#### i. Relevance of tax consolidation to the consolidated entity

Legislation to allow groups comprising a parent entity and its Australian resident wholly-owned entities, to elect to consolidate and be treated as a single entity for income tax purposes ('the tax consolidation system') was substantively enacted on 21 October 2002. The company, its wholly-owned Australian resident entities and its sister entities within Australia are eligible to consolidate for tax purposes under this legislation and have elected to implement the tax consolidation system from 1 July 2005.

#### (ii) Method of measurement of tax amounts

The tax consolidated group has adopted the "stand-alone" method of measuring current and deferred tax amounts applicable to each company.

#### (iii) Tax sharing agreements

There are no tax sharing or funding agreements in place.

#### (iv) Tax consolidation contributions

There were no amounts recognised for the period as tax consolidations contributions by (or distributions to) equity participants of the tax consolidated group.

## 7. Loss per share attributable to the ordinary equity holders of the company

	2014	2013
<i>Basic and diluted loss per share (cents per share)</i>	(0.91)	(0.99)
Loss attributable to ordinary shareholders of the Company	(1,067,893)	(1,132,159)
Weighted average number of ordinary shares outstanding during the year	117,746,704	114,720,764

Potential share capital and options have an anti-dilutive effect in the calculation of diluted loss per share. As a result calculation for diluted loss per share is not shown separately.

## 8. Auditors' remuneration

	2014	2013
	\$	\$
Remuneration of UHY Haines Norton for :		
Audit of the annual financial report	19,500	19,200
Review of the half yearly financial report	8,500	8,250
Other services	4,000	3,800
<i>Total auditors remuneration</i>	<b>32,000</b>	<b>31,250</b>

## 9. Cash and cash equivalents

	2014	2013
	\$	\$
Cash at bank and on hand	156,255	129,596
Deposits on call	5,682	51,057
	<b>161,937</b>	<b>180,653</b>

The carrying amounts of the Group's cash are a reasonable approximation of their fair values.

## 10. Current trade and other receivables

	2014	2013
	\$	\$
Trade receivables	436,081	370,754
Less provision for doubtful debts	(273,299)	(271,946)
Less provision for unrealised foreign exchange gain or loss	(405)	(405)
	<b>162,377</b>	<b>98,403</b>

The carrying amounts of the Group's current trade and other receivables are a reasonable approximation of their fair values.

<i>Impairment of receivables</i>		
Impairment loss recognised in comprehensive loss	-	<b>250,000</b>

	2014	2013
	\$	\$

### *Ageing of impaired receivables are as follows:*

Less than 6 months overdue	-	250,000
More than 6 months overdue	273,299	21,946

### *Movements in provision for impairment of receivables:*

Opening balance	271,946	21,946
Additional provisions recognised	-	250,000
Foreign exchange difference	1,353	-
Closing balance	273,299	271,946

There are no past due receivable balances for which provision for impairment has not been recognised.

## 11. Inventories

	2014	2013
	\$	\$
Finished goods - at cost	21,893	11,296
	<b>21,893</b>	<b>11,296</b>

The carrying amounts of the Group's inventories are a reasonable approximation of their fair values.

## 12. Other current assets

	2014	2013
	\$	\$
Prepayments	32,573	38,684
Deposits and bonds	7,532	7,553
	<b>40,105</b>	<b>46,237</b>

The carrying amounts of the Group's other current assets are a reasonable approximation of their fair values.



## 13. Plant and equipment

### a. Carrying values

	Cost	Accumulated depreciation	Net carrying value
	\$	\$	\$
<b>2014</b>			
R & D equipment	23,611	(20,178)	3,433
Computer equipment	111,840	(110,624)	1,216
Field equipment	58,747	(58,747)	-
Leasehold improvements	92,310	(92,310)	-
Office furniture	65,640	(64,602)	1,038
Plant and equipment	81,054	(81,054)	-
	<b>433,202</b>	<b>(427,515)</b>	<b>5,687</b>
<b>2013</b>			
R & D equipment	20,611	(17,163)	3,448
Computer equipment	111,079	(109,353)	1,726
Field equipment	58,747	(58,747)	-
Leasehold improvements	92,310	(92,050)	260
Office furniture	65,640	(64,319)	1,321
Plant and equipment	81,054	(81,054)	-
	<b>429,441</b>	<b>(422,686)</b>	<b>6,755</b>

### b. Reconciliations

	Opening net carrying value	Additions	Disposals	Depreciation	Exchange movements	Closing net carrying value
	\$	\$	\$	\$	\$	\$
<b>2014</b>						
R & D equipment	3,448	3,000	-	(3,015)	-	3,433
Computer equipment	1,726	754	-	(1,263)	-	1,216
Field equipment	-	-	-	-	-	-
Leasehold improvements	260	-	-	(260)	-	-
Office furniture	1,321	-	-	(283)	-	1,038
	<b>6,755</b>	<b>3,754</b>	<b>-</b>	<b>(4,821)</b>	<b>-</b>	<b>5,687</b>
<b>2013</b>						
R & D equipment	9,879	1,600	-	(8,031)	-	3,448
Computer equipment	6,092	-	(550)	(3,809)	(8)	1,726
Field equipment	10,204	-	(10,204)	-	-	-
Leasehold improvements	1,320	-	-	(1,060)	-	260
Office furniture	306	1,415	(292)	(109)	-	1,321
	<b>27,802</b>	<b>3,015</b>	<b>(11,046)</b>	<b>(13,009)</b>	<b>(8)</b>	<b>6,755</b>

#### 14. Current trade and other payables

	2014	2013
	\$	\$
<i>Unsecured:</i>		
Trade payables	151,623	389,487
Other payables and accruals	140,365	141,049
GST creditors	(186)	3,525
Leave entitlements	25,855	27,824
	<b>317,656</b>	<b>561,885</b>

The carrying amounts of the Group's current trade and other payables are a reasonable approximation of their fair values.

#### 15. Current Interest bearing payables

	2014	2013
	\$	\$
Unsecured loans (payable on demand)	100,000	100,000
	<b>100,000</b>	<b>100,000</b>

The carrying amounts of the Group's current interest bearing payables are a reasonable approximation of their fair values. Interest is charged on these loans at 10% per annum.

#### 16. Non-current trade and other payables

Leave entitlements	28,222	21,998
	<b>28,222</b>	<b>21,998</b>

The carrying amounts of the Group's non-current trade and other payables are a reasonable approximation of their fair values.

#### 17. Non-current interest bearing payables

Unsecured loans from Directors and related entities	2,050,000	700,000
	<b>2,050,000</b>	<b>700,000</b>

The carrying amounts of the Group's non-current interest bearing payables are a reasonable approximation of their fair values.

There are no fixed repayment schedules for these loans.

Interest is charged on these loans @6.20% per annum (ATO benchmark rates)

## 18. Contributed Equity

	2014	2013
Share Capital	\$	\$
117,746,704 fully paid ordinary shares - no par value [2013: 117,746,704]	28,362,632	28,362,632
Other contributed equity		
Consideration for issue of share options	104,876	104,876
	<b>28,467,508</b>	<b>28,467,508</b>

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

	2014	2014	2013	2013
Movement in ordinary share capital of Aeris Environmental Ltd	Number of Shares	\$	Number of Shares	\$
Balance at beginning of year	117,746,704	28,362,632	106,603,980	26,122,982
Shares issued during year				
Other share issues			11,142,724	2,239,650
<i>Balance at end of year</i>	<b>117,746,704</b>	<b>28,362,632</b>	<b>117,746,704</b>	<b>28,362,632</b>

For the purposes of these disclosures, the Group considers its capital to comprise its ordinary share capital and accumulated retained earnings. Neither the share based payments reserve nor the translation reserve is considered as capital.

### Capital Risk Management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

Management are constantly adjusting the capital structure to take advantage of favourable costs of capital or high returns on assets.

As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital risk management policy remains unchanged from the 30 June 2013 Annual Report.

## 19. Options

2014 Unlisted	Grant Date	Expiry Date	Exercise Price	Number on issue 30 June 2013	Granted during year	Lapsed during year	Exercised during year	Number on issue 30 June 2014
*	30-Jun-09	29-Jun-14	0.20	410,000	-	(410,000)	-	-
*	07-Mar-11	09-Jan-16	0.25	275,000	-	-	-	275,000
	31-Mar-11	17-Mar-16	0.15	50,000	-	-	-	50,000
*	17-Nov-11	17-Nov-16	0.17	250,000	-	-	-	250,000
*	26-Jul-12	23-Feb-17	0.22	20,000	-	-	-	20,000
				<b>1,005,000</b>	<b>-</b>	<b>(410,000)</b>	<b>-</b>	<b>595,000</b>

2013 Unlisted	Grant Date	Expiry Date	Exercise Price	Number on issue 30 June 2012	Granted during year	Lapsed during year	Exercised during year	Number on issue 30 June 2013
*	20-Jun-08	08-Dec-12	0.30	967,000	-	(967,000)	-	-
*	28-Dec-07	28-Dec-12	0.52	60,000	-	(60,000)	-	-
*	28-Dec-07	28-Dec-12	0.50	150,000	-	(150,000)	-	-
*	30-Jun-09	29-Jun-14	0.20	460,000	-	(50,000)	-	410,000
*	07-Mar-11	09-Jan-16	0.25	275,000	-	-	-	275,000
	31-Mar-11	17-Mar-16	0.15	50,000	-	-	-	50,000
*	17-Nov-11	17-Nov-16	0.19	375,000	-	(350,000)	(25,000)	-
*	17-Nov-11	17-Nov-16	0.17	250,000	-	-	-	250,000
*	26-Jul-12	23-Feb-17	0.22	-	20,000	-	-	20,000

*Total  
options  
on issue*

**2,587,000      20,000      (1,577,000)      (25,000)      1,005,000**

These options do not entitle the holder to participate in any share issue of the Company or any other body corporate unless the options are exercised prior to the new share issue entitlement date.

\* These options expire on the earlier of their expiry date or the date of termination of the employee's employment, or, in the case of voluntary termination, 90 days after voluntary termination of the employee's employment.

## 20. Reserves

	2014	2013
	\$	\$
Foreign currency translation reserve	(55,458)	(54,636)
Share based payments reserve	1,216,988	1,211,614
	<b>1,161,530</b>	<b>1,156,978</b>

### *Foreign currency translation reserve*

Balance at beginning of financial year	(54,636)	(49,416)
Exchange rate fluctuation during year	(822)	(5,220)
	<b>(55,458)</b>	<b>(54,636)</b>

### *Nature and purpose of reserve*

The foreign currency translation reserve records the impact of the movement of the exchange rate as it relates to the company's investment in overseas subsidiaries.



### Share based payments reserve

Balance at beginning of financial year	1,211,613	1,185,687
<b>Share based payments during the year to:</b>		
Employees and consultant	3,436	5,064
Directors	1,940	20,862
<b>Balance at end of financial year</b>	<b>1,216,988</b>	<b>1,211,613</b>

### Nature and purpose of reserve

The share based payments reserve records the value of options issued to employees, consultants and Directors, as part of the remuneration for their services.

## 21. Accumulated Losses

	2014	2013
	\$	\$
Balance at beginning of financial year	(30,665,025)	(29,532,866)
Net loss for year	(1,067,893)	(1,132,159)
<b>Balance at end of financial year</b>	<b>(31,732,918)</b>	<b>(30,665,025)</b>

## 22. Minority Interests

There are NIL minority interest as at 30 June 2014 (2013: NIL)

## 23. Particulars relating to controlled entities

	Country of incorporation	Ownership Interest 2014	Ownership Interest 2013
Name of entity		%	%
<b>Controlled entities</b>			
Aeris Pty Ltd	Australia	100	100
Aeris Biological Systems Pty Ltd	Australia	100	100
Aeris Hygiene Services Pty Ltd	Australia	100	100
Aeris Environmental LLC	USA	100	100

## 24. Commitments for Expenditure

### a. Capital Expenditure commitments

There are no capital expenditure commitments at the end of the financial year.

### b. Lease commitments

#### Operating Leases

Operating leases relate to office facilities. The consolidated entity does not have an option to purchase the leased asset at the expiry of the lease period.

	2014	2013
	\$	\$
Not later than one year	-	49,500
Later than 1 year but not later than 5 years	-	-
	<b>-</b>	<b>49,500</b>

Company is paying rent for its office facilities on a monthly basis as no formal lease contract has been signed.

## 25. Key management personal disclosures

### a. The directors of Aeris Environmental Ltd during the year were:

Maurie Stang  
David Fisher (Until 31 July 2014)  
Bernard Stang  
Steven Kritzler  
Peter Bush (Alternate Director and Chief Executive Officer)

### b. Other key management personnel

Robert Waring (Company Secretary)

### c. Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out

	2014	2013
	\$	\$
Short-term employee benefits	36,819	85,109
Post-employment benefits	-	3,255
Long-term benefits	-	-
Share-based payments	1,940	20,862
	<b>38,758</b>	<b>109,226</b>

Further, disclosures relating to key management personnel are set out in remuneration report in the Director's Report.

## 26. Share Based Payments

### a. Recognised share-based payment expenses

The expense recognised for employee services received during the year is shown in the table below:

	2014	2013
	\$	\$
Employee Share Option Plan		
Employees and consultant	3,436	5,064
Directors	1,940	20,862
<b>Total expense arising from share-based payment transactions</b>	<b>5,375</b>	<b>25,926</b>

### b. Details of share-based payment plan

The share-based payment plan is described below. There have been no cancellations or modifications to the plan during 2013 and 2014.

#### Employee Share Option Plan

The Employee Share Option Plan was approved at the Annual General Meeting held on 25 November 2004. Under the Employee Share Option Plan, directors, employees and consultants are granted options to acquire shares in the Company.

*The terms of the Employee Share Option Plan provides for the following conditions :*

#### i. Vesting

- 33.33% vest on the first anniversary of grant of option
- 33.33% vest on the second anniversary of grant of options
- 33.34% vest on the third anniversary of grant of options

#### ii. The contractual life of the options issued is 5 years.

- iii. The exercise price determined in accordance with the Rules of the plan is based on the weighted average price of the Company's shares for the 20 trading days prior to the offer.
- iv. Each option is convertible to one ordinary share.
- v. All options expire on the earlier of their expiry date or 90 days after voluntary termination of the participant's employment
- vi. There are no voting or dividend rights attached to the options. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the ordinary shares which will be issued when the options have been exercised.
- vii. The options issued are on an equity settled basis. There are no cash settlement alternatives.

#### *Fair value of options issued*

The fair value of the options granted under the plan is estimated using the Black & Scholes valuation methodology taking into account the terms and conditions under which the options are granted.

The weighted average remaining contractual life for the share options outstanding as at 30 June 2014 is 1.94 years (2013: 2.15 years).

The range of exercise prices for options outstanding at the end of the year was \$0.15 to \$0.25.

No options were granted during 2014 financial year.

The following table shows the inputs to the Black & Scholes model in respect of options granted during 2013 financial year.

	Employee
Value of Underlying Stock	0.170
Exercise Price	0.220
Dividend Yield	0.00%
Volatility (per Year)	17.30%
Risk free rate	5.00%
Maturity	23/02/2017
Pricing Date	26/07/2012
Value of Option	0.0229

## 27. Related Party Disclosures

### a. Parent Entity

Aeris Environmental Limited is the parent entity.

### Subsidiaries

Interests in subsidiaries are set out in note 23.

### b. Key management personnel

Disclosures relating to key management personnel are set out in note 25 and the remuneration report in the Director's Report.

### c. Transactions with Directors and Director related entities

A number of specified directors, or their personally-related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Company in the reporting period. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arms length basis.

Details of these transactions are shown below:

	2014	2013
	\$	\$
<i>Regional Healthcare Group Pty Ltd</i>		
The company and its controlled entities paid for services provided by Regional Healthcare Group Pty Ltd.		
Office and Administration expenses	87,246	85,072
Rent	49,913	12,375
Distribution expenses	29,014	34,605
Corporate services	103,520	77,943
Interest on loans	9,555	-
The company and its controlled entities received rental income from Regional Healthcare Group Pty Ltd.	-	67,594

Mr M Stang and Mr B Stang are Directors and shareholders of Regional Healthcare Group Pty Ltd.

	2014	2013
	\$	\$
<i>Stangcorp Pty Ltd</i>		
The company and its controlled entities paid for services provided by Stangcorp Pty Ltd.		
Electricity	879	7,897
Repairs and Maintenance	1,118	1,701
Interest on loans	13,615	7,658
Loan borrowings from Stangcorp Pty Ltd.	400,000	250,000
Loan repaid to Stangcorp Pty Ltd.	650,000	-

Mr M Stang and Mr B Stang are Directors and shareholders of Stangcorp Pty Ltd.



	2014	2013
	\$	\$

#### *Steven Kritzler*

The company and its controlled entities provided for interest on loans from Steven Kritzler

Interest on loans	5,592	16,312
Loan borrowings from Steven Kritzler	-	450,000
Loan repaid to Steven Kritzler	450,000	

Mr S Kritzler is a non-executive Director of the Company.

	2014	2013
	\$	\$

#### *Novapharm Research (Australia) Pty Ltd*

The company and its controlled entities paid for services provided by Novapharm Research (Australia) Pty Ltd

Research and Development	111,815	98,804
Patent and other expenses	41,644	19,839

Mr M Stang, S Kritzler and B Stang are Directors and shareholders of Novapharm Research (Australia) Pty Ltd.

	2014	2013
	\$	\$

#### *Ramlist Pty Ltd*

The company and its controlled entities paid rent & utility outgoings to Ramlist Pty Ltd.

	10,426	261,489
--	--------	---------

Mr M Stang, S Kritzler and B Stang are Directors and shareholders of Ramlist Pty Ltd.

*d. Loan from Directors (contributed equally by M Stang, B Stang and S Kritzler)*

	2014	2013
	\$	\$
Interest on loans	54,450	-
Loan borrowings	2,050,000	-

Mr M Stang, S Kritzler and B Stang are Non-Executive Directors and shareholders of the Company

*e. Outstanding balances payable from purchases of services*

	2014	2013
	\$	\$
Regional Healthcare Group Pty Ltd	8,892	63,399
Novapharm Research (Australia) Pty Ltd	81,633	211,157
Ramlist Pty Ltd	-	433
Stangcorp Pty Ltd	259	1,497
Outstanding balances at year end are unsecured, interest free and settlement occurs in cash		

*Outstanding loan balances*

Stangcorp Pty Ltd	-	250,000
Steven Kritzler	-	450,000
Directors' loan	2,050,000	

Interest is charged on these loans at 6.2% per annum (ATO benchmark rates)

## 28. Financial Instruments Disclosures

*a. Capital*

The Group considers its capital to comprise its ordinary share capital and accumulated retained earnings. In managing its capital, the Group's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through a combination of capital growth and distributions. In order to achieve this objective, the Group seeks to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through new share issues or debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

*b. Financial instrument risk exposure and management*

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them.

Further quantitative information in respect of these risks is presented throughout these financial statements. There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

*c. Principal financial instruments*

The principal financial instruments used by the Group, from which financial instrument risks arise, are as follows:

- cash at bank;

- other receivables;
- deposits and bonds;
- trade and other payables;
- lease liabilities; and
- convertible notes

#### *d. General objectives, policies and processes*

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and has the responsibility for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives monthly reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

##### *i. Credit Risk*

Credit risk arises principally from the Group's trade receivables. It is the risk that the counterparty fails to discharge its obligation in respect of the instrument.

The maximum exposure to credit risk at balance sheet date is as follows:

	2014	2013
	\$	\$
Trade receivables	436,081	370,754
Deposits & bonds;	7,532	7,553
	<b>443,613</b>	<b>378,307</b>

##### *ii. Liquidity risk*

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements for a period of at least 45 days.

The Board receives cash flow projections on a monthly basis as well as information regarding cash balances. At the balance sheet date, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

The Group has a financing facility in place and does not have a bank overdraft.

#### *Maturity analysis of financial assets and liability based on management's expectations*

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Trade payables and other financial liabilities mainly originate from the financing of assets used in our ongoing operations such as property, plant, equipment and investments in working capital (e.g., trade receivables and inventories). These assets are considered in the Group's overall liquidity risk.

## Maturity analysis of financial assets and liability based on management's expectations

	Carrying Amount	< 6mths	6 - 12 mths	1 - 3 years	> 3 years
	\$	\$	\$	\$	\$
<i>Maturity analysis -2014</i>					
<i>Financial assets</i>					
Cash at bank and on hand	161,937	161,937	-	-	-
Other receivables	162,377	162,377	-	-	-
Security deposits	7,532	-	-	-	7,532
<b>Total</b>	<b>331,846</b>	<b>324,314</b>	<b>-</b>	<b>-</b>	<b>7,532</b>
<i>Financial liabilities</i>					
Trade Creditors	151,623	151,623	-	-	-
Other payables and accruals	166,034	166,034	-	-	-
Interest bearing liabilities	2,050,000	-	-	-	2,050,000
Loans*	100,000	100,000	-	-	-
<b>Total</b>	<b>2,467,656</b>	<b>417,656</b>			<b>2,050,000</b>
<b>Net Maturity</b>	<b>(2,135,810)</b>	<b>(93,342)</b>	<b>-</b>	<b>-</b>	<b>(2,042,468)</b>
<i>Maturity analysis -2013</i>					
<i>Financial assets</i>					
Cash at bank and on hand	180,653	180,653	-	-	-
Other receivables	98,403	98,403	-	-	-
Security deposits	7,553	-	-	-	7,553
<b>Total</b>	<b>286,609</b>	<b>279,056</b>	<b>-</b>	<b>-</b>	<b>7,553</b>
<i>Financial liabilities</i>					
Trade Creditors	389,487	389,487	-	-	-
Other payables and accruals	172,398	172,398	-	-	-
Interest bearing liabilities	700,000	-	-	-	700,000
Loans*	100,000	100,000	-	-	-
<b>Total</b>	<b>1,361,885</b>	<b>661,885</b>	<b>-</b>	<b>-</b>	<b>700,000</b>
<b>Net Maturity</b>	<b>(1,075,276)</b>	<b>(382,828)</b>	<b>-</b>	<b>-</b>	<b>(692,447)</b>

\* These have an option of settlement by issue of shares



### iii. Market Risk

#### (a) Interest rate risk

The Group's exposure to fluctuations in interest rates that are inherent in financial markets arise predominantly from assets and liabilities bearing variable interest rates.

The company's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

	Note	weighted average interest rates	Floating interest rates	Fixed interest rates	Non-interest bearing	TOTAL
<b>2014</b>						
<i>Financial assets</i>						
Cash	9	2.50%	5,682	-	156,255	161,937
Receivables	10	0.00%	-	-	162,377	162,377
<b>Total Assets</b>			<b>5,682</b>	<b>-</b>	<b>318,632</b>	<b>324,314</b>
<i>Financial liabilities</i>						
Payables	14	0.00%	-	-	291,801	291,801
Interest bearing liabilities	17	6.20%	-	2,050,000	-	2,050,000
Loans	15	10.00%	-	100,000	-	100,000
<b>Total Liabilities</b>			<b>-</b>	<b>2,150,000</b>	<b>291,801</b>	<b>2,441,801</b>
<b>Net financial assets (liabilities)</b>			<b>5,682</b>	<b>(2,150,000)</b>	<b>26,831</b>	<b>(2,117,487)</b>
<b>2013</b>						
<i>Financial assets</i>						
Cash	9	2.50%	51,057	-	129,596	180,653
Receivables	10	0.00%	-	-	98,403	98,403
<b>Total Assets</b>			<b>51,057</b>	<b>-</b>	<b>228,000</b>	<b>279,056</b>
<i>Financial liabilities</i>						
Payables	14	0.00%	-	-	534,061	534,061
Interest bearing liabilities	17	6.20%	-	700,000	-	700,000
Loans	15	10.00%	-	100,000	-	100,000
<b>Total Liabilities</b>				<b>800,000</b>	<b>534,061</b>	<b>1,334,061</b>
<b>Net financial assets (liabilities)</b>			<b>51,057</b>	<b>(800,000)</b>	<b>(306,061)</b>	<b>(1,055,004)</b>

The following sensitivity analysis is based on the interest rate risk exposure in existence at the balance sheet date. The analysis assumes all other variables remain constant

Sensitivity analysis	Carrying amount	+3% interest rate	-3% interest rate
2014		Profit & Loss	Profit & Loss
		AUD\$	AUD\$
Cash at bank	5,682	170	(170)
	5,682	170	(170)
Tax charge of 30%		(51)	51
Post tax profit increase / (decrease)		<b>119</b>	<b>(119)</b>

Sensitivity analysis			
2013			
Cash at bank	51,057	1,532	(1,532)
	51,057	1,532	(1,532)
Tax charge of 30%		(460)	460
Post tax profit increase / (decrease)		<b>1,072</b>	<b>(1,072)</b>

*(b) Currency risk*

The Group's policy is, where possible, to allow group entities to settle liabilities denominated in their functional currency with the cash generated from their own operations in that currency. Where group entities have liabilities denominated in a currency other than their functional currency (and have insufficient reserves of that currency to settle them) cash already denominated in that currency will, where possible, be transferred from elsewhere within the Group.

The Group's exposure to foreign currency risk is as follows:	2014	2013
	US\$	US\$
Cash at bank	6,986	15,407
Trade and other receivables	800	800
Trade and other payables	(3,336)	(3,772)
Net Exposure	4,450	12,434

The following sensitivity analysis is based on the foreign currency risk exposures in existence at the balance sheet date. The below analysis assumes all other variables remain constant.

Sensitivity analysis	Carrying amount	+10% USD/AUD	-10% USD/AUD
2014		Profit & Loss	Profit & Loss
	US\$	AUD\$	AUD\$
Cash at bank	6,986	(742)	742
Trade and other receivables	800	(85)	85
Trade and other payables	(3,336)	354	(354)
	4,450	(472)	472
Tax charge of 30%		142	(142)
Post tax profit increase / (decrease)		<b>(331)</b>	<b>331</b>

Sensitivity analysis	Carrying amount	+10% USD/AUD	-10% USD/AUD
2013		Profit & Loss	Profit & Loss
	US\$	AUD\$	AUD\$
Cash at bank	15,407	(1,687)	1,687
Trade and other receivables	800	(88)	88
Trade and other payables	(3,772)	413	(413)
	12,434	(1,362)	1,362
Tax charge of 30%		409	(409)
Post tax profit increase / (decrease)		<b>(953)</b>	<b>953</b>

#### e. Fair value measurement

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Therefore, table detailing the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement is not required.

## 29. Contingent Liabilities

There are no contingent liabilities of the company or the Group.

## 30. Additional Company Information

Aeris Environmental Ltd is a listed public company, incorporated in Australia.

#### *Principal registered office and principal place of business*

5/26-34 Dunning Avenue  
ROSEBERY  
NSW 2018

## 31. Subsequent events

On 1 July 2014, Company signed a Memorandum of Understanding for acquisition of the business of Smartcool Systems Australia Pty Ltd (Smartcool). Specifically, Company acquired the staff, trading business, know-how and related distribution rights from Smartcool. As consideration for the transaction, on 31 July 2014, the Company issued Chris Rogerson (CEO of Smartcool) and Scott Gregson (National Operations Manager) with 250,000 share options each, at an exercise price of 20 cents and 3-year vesting period. The issue of share options is subject to significant performance hurdles.

There have been no other matters or circumstances, which have arisen since 30 June 2014 that have significantly affected or may significantly affect:

- (a) the operations, in financial years subsequent to 30 June 2014, of the consolidated entity; or
- (b) the results of those operations;
- (c) the state of affairs, in the financial years subsequent to 30 June 2014, of the consolidated entity.

## 32. Operating segments information

### *Identification of reportable segments*

From Board of Directors' (Chief Operating Decision Makers' - CODM) perspective, the Group is organised into business units based on its products and services, and the geographical area of operation. The Group has identified three reportable segments as mentioned below.

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 Australia and USA, as these are the sources of the Group's major risks and have the most effect on the rates of return.

The CODM reviews revenue, COGS, operating expenses, profit before tax, assets & liabilities for the following segments:

- (a) Australian Sales - Sale of Aeris products from Australia
- (b) Australian Services - Services rendered in Australia (this operation was discontinued during the 2013 financial year)
- (c) USA Operations - Sales & 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 & are eliminated on consolidation.

### *Major Customer*

The Group supplies to two of its major customers, through Australian sales segment, (who individually amount to 10% or more of its revenue) that combined account for 66% of external revenue (2013: Two major customers combined account for 64%)

During the year ended 30 June 2014 the most significant client accounts for approximately 38% (2013: 34%) of the consolidated entity's external revenue through Australian Sales operating segment.



Operating segment information of the consolidated entity

	Australian Sales	Australian Services** (Discontinued Operation)	USA Operations	Intersegment eliminations	Consolidated
2014	\$	\$	\$	\$	\$
<i>Revenue</i>					
Sales	484,303	-	39,351	(36,534)	487,121
Other Income	37,488	182	-	-	37,670
<b>Total Revenue</b>	<b>521,791</b>	<b>182</b>	<b>39,351</b>	<b>(36,534)</b>	<b>524,791</b>
<i>Expenses</i>					
Cost of goods sold	155,115	-	39,130	(36,534)	157,711
Operating expenses	1,399,826	181	145,632	(54,498)	1,491,141
<b>Total Expenses</b>	<b>1,554,941</b>	<b>181</b>	<b>184,763</b>	<b>(91,032)</b>	<b>1,648,852</b>
<b>Loss before tax</b>	<b>(1,033,150)</b>	<b>1</b>	<b>(145,411)</b>	<b>54,498</b>	<b>(1,124,061)</b>
	Australian Sales	Australian Services** (Discontinued Operation)	USA Operations	Intersegment eliminations	Consolidated
2013	\$	\$	\$	\$	\$
<i>Revenue</i>					
Sales	550,056	87,396	27,290	(28,281)	636,461
Other Income	447,197	68,954	-	-	516,151
<b>Total Revenue</b>	<b>997,253</b>	<b>156,351</b>	<b>27,290</b>	<b>(28,281)</b>	<b>1,152,612</b>
<i>Expenses</i>					
Cost of goods sold	195,850	43,364	26,736	(28,281)	237,670
Operating expenses	1,945,733	60,535	149,502	(47,731)	2,108,039
Total Expenses	2,141,584	103,900	176,238	(76,012)	2,345,709
<b>Loss before tax</b>	<b>(1,144,331)</b>	<b>52,451</b>	<b>(148,948)</b>	<b>47,731</b>	<b>(1,193,097)</b>

\*\*Refer Note 34

Segment assets and liabilities

	Assets		Liabilities	
	2014	2013	2014	2013
	\$	\$	\$	\$
Australian Sales	536,192	345,037	2,487,435	1,324,673
Australian Services** (Discontinued operation)	4,210	60,208	1,819,528	1,875,528
USA Operations	8,937	18,438	1,491,979	1,402,325
<b>Total</b>	<b>549,339</b>	<b>423,682</b>	<b>5,798,943</b>	<b>4,602,527</b>
Intersegment elimination	(157,339)	(80,337)	(3,303,065)	(3,218,643)
<b>Consolidated</b>	<b>392,000</b>	<b>343,345</b>	<b>2,495,878</b>	<b>1,383,883</b>

### 33. Information Relating to Aeris Environmental Ltd (The Parent Entity)

	2014	2013
	\$	\$
Current Assets	465,928	338,255
Total Assets	471,627	345,022
Current Liabilities	409,183	524,643
Total Liabilities	2,487,405	1,324,643
Issued Capital (net of costs)	28,467,507	28,467,507
Unissued Capital	-	-
Retained earnings	(31,700,272)	(30,658,741)
Share-based payment reserve	1,216,988	1,211,613
	<b>(2,015,777)</b>	<b>(979,621)</b>
<i>Contractual Obligations / Commitments (Refer Note 24)</i>		
Operating leases		
Not later than one year	-	49,500
Later than 1 year but not later than 5 years	-	-
	<b>-</b>	<b>49,500</b>

### 34. Discontinued Operations

a. On 9 July 2012, the Company announced the sale and license of its Australian cold storage direct service business, Aeris Hygiene Services Pty Ltd (AHS) to Mycologia Pty Limited (Mycologia). Consistent with Aeris' commitment to now scale its 'core platform' technologies into the global marketplace, the Company has now freed up considerable resources that can be applied to its global businesses.

#### b. Financial performance of the discontinued operations

Sales	2014	2013
	\$	\$
Revenue	-	156,351
Expenses	-	(103,900)
Profit (Loss) for the year from Discontinued Operations	-	52,451

#### c. Assets and liabilities of discontinued operations

	2014	2013
	\$	\$
Net Accrued liabilities	-	(8,137)
Reserve for discontinued operations	-	(8,137)

#### d. Cash flow summary for discontinued operations

	2014	2013
	\$	\$
Operating activities	-	135,845
Investing activities	-	40,000
Net cash inflow / (outflow)	-	175,845

#### e. Earnings per share from discontinued operations

	2014	2013
	\$	\$
Profit / (loss) from discontinued Operations	-	52,451
Earnings / (loss) per share from discontinued operations		
Basic and diluted (cents per share)	-	0.05

## 35. Notes to Cash Flow Statements

### a. Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled in the related items in the statement of financial position as follows:

	2014	2013
	\$	\$
Cash at bank and on hand	161,937	180,653
	161,937	180,653

### b. Businesses acquired

During the previous year no acquisitions were made.

	2014	2013
	\$	\$

### c. Reconciliation of operating loss after income tax to net cash flows from operating activities

Operating loss after income tax	(1,067,893)	(1,132,159)
---------------------------------	-------------	-------------

### Non cash/non-operating items included in profit and loss

Depreciation and amortisation	4,821	13,009
Employee entitlement expense	4,255	2,877
Provision for doubtful debts	1,181	266,669
Interest on Convertible Notes	10,000	139,440
Share based payments	5,375	25,926
Proceeds from sale of assets	-	(40,000)

### Changes in assets and liabilities

(Increase) / decrease in receivables	(65,155)	(172,620)
(Increase) / decrease in inventory	(10,597)	11,826
(Increase) / decrease in other assets	6,132	7,355
Increase / (decrease) in trade creditors	(237,864)	147,107
Increase / (decrease) in other creditors and accruals	(14,396)	60,349

<b>Net cash used in operating activities</b>	<b>(1,364,140)</b>	<b>(670,220)</b>
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# DIRECTORS' DECLARATION

In accordance with a resolution of directors, I state that:

1. In the opinion of the directors:

a. the financial statements and notes, as set out on pages 16 to 54, are in accordance with the Corporations Act 2001 and

i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and its performance for the year ended on that date; and

ii. complying with Accounting Standards and the Corporations Regulations 2001;

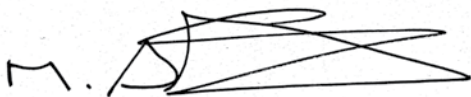
b. the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1; and

c. There are reasonable grounds to believe that the company and the consolidated entity will be able to pay its debts as and when they become due and payable;

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2014.

On behalf of the Board of Directors

M STANG

A handwritten signature in black ink, appearing to be 'M. Stang', with a large, stylized flourish extending to the right.

Director

Sydney, 15 September 2014

**INDEPENDENT AUDITOR'S REPORT**

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GPO Box 4137 | Sydney | NSW | 2001  
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sydney@uhyhn.com.au  
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**To the members of Aeris Environmental Limited**

**Report on the Financial Report**

We have audited the accompanying financial report of Aeris Environmental Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

*Directors' Responsibility for the Financial Report*

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

In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements* that the financial statements comply with *International Financial Reporting Standards*.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

*Independence*

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

*Auditor's Opinion*

In our opinion:

- (a) The financial report of Aeris Environmental Limited is in accordance with the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the consolidated entity's financial positions as at 30 June 2014 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) The consolidated financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

*Emphasis of Matter*

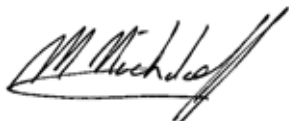
Without modifying our opinion, we draw attention to Note 1 in the financial report, which indicates that the consolidated entity incurred a net loss of \$1,067,893 for the year ended 30 June 2014 and, as of that date, the consolidated entity's total liabilities exceeded its total assets by \$2,103,879. 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.

**Report on the Remuneration Report**

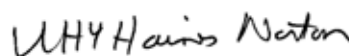
We have audited the Remuneration Report included in pages 8 to 11 of the directors' report for the year ended 30 June 2014. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's Opinion*

In our opinion, the Remuneration Report of Aeris Environmental Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.



**M. D. Nicholaieff**  
Partner, Sydney  
Dated 15<sup>th</sup> September 2014



**UHY Haines Norton**  
Chartered Accountants

## CORPORATE GOVERNANCE

The Aeris Environmental Ltd (Aeris) Directors are responsible for protecting the rights and interests of shareholders through the implementation of sound strategies and action plans, and the development of an integrated framework of controls over the consolidated entity's resources, functions and assets. The Company's corporate governance practices, which are summarised below, were originally adopted in the 2002-03 financial year, and are reviewed and amended by the Company's Corporate Governance Committee, consisting of Messrs Maurie Stang (Committee Chairman) and Bernard Stang, and Dr David Fisher at appropriate intervals (at least annually), including prior to the finalisation of the Annual Report.

The Board and the Corporate Governance Committee draw on relevant best practice principles, particularly those issued by the ASX Corporate Governance Council's third edition of the publication, "Corporate Governance Principles and Recommendations", which was released in March 2014 and is referred to for guidance purposes. While Aeris attempts to adhere to the principles proposed by the ASX, it is mindful that there may be some instances where compliance is not practicable for a company of Aeris' size. However all listed companies are required to produce a corporate governance statement that discloses the extent to which the entity has followed the recommendations, and to identify any recommendations that have not been followed, the period during which it was not followed, the reasons for not doing so and any alternative governance practices that have been adopted in lieu of the recommendation.

The Company's Corporate Governance Committee and its Board of Directors have recently reviewed the recommendations, and approved the Company's Corporate Governance Statement as at 23 July 2014. In many cases the Company was already achieving the standard required. In other cases the Company has considered other arrangements to enable compliance. In a limited number of instances, the Company has determined not to meet the standard set out in the recommendations, largely

due to the recommendation being considered by the Board to be unduly onerous for a company of Aeris' size. The Company's written policies on corporate governance matters are included in the Corporate Governance section of the Company's website. The following section sets out the Company's position relative to each of the eight principles contained in the ASX Corporate Governance Council's report.

### Principle 1: Lay solid foundations for management and oversight

The Company has established and disclosed the respective roles and responsibilities of its Board and management. It has not, however established and disclosed how their performance is monitored and evaluated. The Company has disclosed those matters expressly reserved to the Board and those delegated to management. An evaluation of executives takes place during each year as part of the annual review of performance and remuneration. During the financial year, the Company had a small Board of four Non-Executive Directors (consisting of Messrs Maurie and Bernard Stang, Dr David Fisher and Mr Steven Kritzer). Mr Peter Bush, the Company's Chief Executive Officer (CEO), is also an Alternate Director for both Messrs Maurie and Bernard Stang. The Company has a small management team, so roles and functions have to be flexible to meet specific requirements.



## The Board's role includes the following:

- Setting and reviewing the vision, goals and strategy of the Company.
- Approving the annual strategic plan and major operating plans.
- Approving budgets.
- Reviewing and providing feedback on the performance of the CEO.
- Reviewing the performance of the Board and individual Directors.
- Reviewing the half-year and annual financial statements and reports, and quarterly cash-flow statements.
- Determining policies and ensuring adequate procedures are in place to manage the identified risks.

## The role of the Chairman includes:

- Ensuring leadership in setting and reviewing vision and strategies.
- Setting the Board meeting agenda with the CEO and Company Secretary, and ensuring that Directors receive all relevant information prior to the meetings, chairing Board meetings and dealing with conflicts.
- Chairing the Annual General Meeting (AGM) and ensuring that shareholders as a whole have an opportunity to speak on relevant matters, ensuring the audit partner attends.
- Being the external spokesperson with the CEO on Company matters.
- Keeping fully informed on major matters by the CEO, chairing the performance appraisal of the CEO and providing mentoring.
- Initiating Board and committee performance appraisals, ensuring that the agreed composition is maintained and the Director induction plans are in place.

## The CEO's responsibilities and duties include:

- Formulating with the Board the vision and strategy of the Company, developing action plans to achieve this vision and reporting regularly to the Board on progress made.
- Providing leadership to the management team and employees, appointing and negotiating terms of employment of senior staff members (with Board approval where necessary), developing a succession plan, and ensuring procedures are in place for education and training to ensure compliance with laws and policies. The process for evaluating the performance of executives and staff members has been

developed by the CEO, the Board and the Remuneration and Nomination Committee.

- The successful implementation of the Company's product commercialisation.
- Bringing matters requiring review / approval to the Board, advising them on the changes in the Company's risk profile, providing certification regarding the financial statements for the quarterly, half-year and annual reports, reporting to the Board on a monthly basis the performance of the Company and ensuring the education of the Directors on relevant matters.

The Company undertakes appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a Director. The Company also provides security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a Director.

The Company has a written agreement with each Director and senior executive setting out the terms of their appointment.

The Company Secretary of the Company is accountable directly to the Board, through the chair, on all matters to do with the proper functioning of the Board.

The Company has a Diversity Policy, which includes requirements for the Board and Corporate Governance Committee to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the Company's progress in achieving them. The Company has disclosed the Diversity Policy on its website. It has not previously disclosed, as at the end of each reporting period, the measurable objectives for achieving gender diversity set by the Board or Corporate Governance Committee in accordance with the Company's Diversity Policy and its progress towards achieving them. The Company has disclosed the respective proportions of men and women on the Board, in senior executive positions and across the whole organisation. The Company has defined "senior executive" for these purposes following the classification in the Remuneration Report. The Company has a small number of staff members (two employees and four contractors) and does not have any women on its Board, amongst its executives or on its staff. In accordance with the adopted Diversity Policy, the Company's objective is to address this matter, and set and disclose measurable objective, as it grows in size. The Board believes that the pursuit of diversity in the workplace increases the Company's ability to attract, retain and develop the best talent available, creates an engaged workforce, delivers the highest quality services to its customers, enhances individual work-life balance, encourages personal achievement, improves co-operation and assists in the optimisation of organisational performance. Diversity in the workplace should mirror the diversity of the broader community, encompassing age, gender, ethnicity, cultural and other personal factors. The Company respects the diversity of all its employees, consultants and contractors, and cultivates an environment

of fairness, respect and equal opportunity.

The Company has a process for periodically evaluating the performance of the Board, its committees, individual Directors and senior executives using an evaluation questionnaire in relation to each reporting period. This performance evaluation was not undertaken in the reporting period in accordance with that process, but has been completed since the end of the period.

## Principle 2: Structure the Board to add value

The Company has a Board of an appropriate size, composition, skills and commitment to enable it to discharge its duties effectively. During the financial year, the Board had a joint Remuneration and Nomination Committee, rather than a separate nomination committee, which comprised of two, rather than three, members, being Messrs Maurie Stang (Chairman) and Dr Fisher. Mr Maurie Stang, who is also the Chairman of the Company, is not an independent Director, as he is a substantial shareholder (although he is separate from the executive management of the Company). However, he is not the same person as the CEO of the Company i.e. that role is held by Mr Bush. Dr Fisher is not deemed independent, as he was employed in an executive capacity, as Managing Director, within the last three years, therefore the majority of the Directors of this Committee is not independent. The Charter of the Remuneration and Nomination Committee can be found in the Company's Corporate Governance Manual on the Company's website. This Committee met once during the reporting period and both Committee members attended the meeting. It is the Board's view that, due to the small size of the Company and its limited financial capacity, there is no additional benefit from having a separate Nomination Committee at this stage in the Company's development. However, the Remuneration and Nomination Committee, which carries out the role that might otherwise be carried out by a separate Nomination Committee, employs processes to address Board succession issues and to ensure that the Board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively. It does so by reviewing Board performance, size and capacity (with appropriately-experienced Directors). A performance evaluation of the Board, its Committees and Directors, was carried out by the Directors during the year at a number of Board meetings where these matters were reviewed and evaluated. The members agreed that the Board has an appropriate balance of experienced Directors and fresh ideas from the most recent member of the Board, Dr Fisher, and the attendance at Board meetings of the CEO and Alternate Director, Mr Bush. The Board has the appropriate skills and knowledge required, and the mix of skills and Board diversity will remain under review. Transactions with Director-related entities are set out in the notes to the financial statements.

The Company does not comply with the recommendation that a majority of directors are independent, because three are substantial shareholders and the fourth, Dr Fisher (who is a Non-Executive Director of the Company and was previously

the Managing Director) was employed in an executive capacity within the last three years and was therefore deemed not to be independent. The length of service of each Director is as follows: Mr Maurie Stang – 12 years, Dr Fisher – three years, Mr Kritzler – 12 years, Mr Bernard Stang – 12 years, Mr Bush – three years as an Alternate Director. The Company's four Directors are all Non-Executive. Mr Bush, the Company's CEO, is an alternate Director for both Mr Maurie Stang and Mr Bernard Stang. A description of the skills and experience of each Director, and their period of office, is set out in the Directors' Report section of the Annual Report. A Director may be elected for a term of a maximum of three years. To ensure a gradual and controlled movement of Directors, the longest serving one-third of all Directors (rounded down to the nearest whole number) is required to retire at each AGM, but shall be eligible for re-election.

An induction programme for new Directors of the Company is being considered but does not currently exist. Each Director of the Company has the right to seek independent professional advice at the expense of the Company, and the Company provides appropriate professional development opportunities as required for Directors to develop and maintain the skills and knowledge needed to perform their role as Directors effectively. Prior approval of the Chairman is required, but this will not be unreasonably withheld. The Company does not yet have a Board skills matrix setting out the mix of skills and diversity that the Board has, but is looking to develop a matrix in the 2014-15 year.

## Principle 3: Act ethically and responsibly

It is the Board's policy for the Directors and management to conduct themselves with the highest of ethical standards, and the Company strives to act ethically and responsibly at all times. All Directors and employees will be expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the Company. The Company has a Code of Conduct for its Directors, senior executives and employees, which is disclosed in the Corporate Governance section of the Company's website, and is appropriate for the Company's size and the close interaction of individuals throughout the organisation. The purpose of the Company's Code of Conduct is to guide compliance with legal and other obligations, to maintain confidence in the Company's integrity, to take into account the expectations of stakeholders, and to define the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. The Company, being an environmental services business, strives not only to act responsibly towards the environment, but by its very purpose works to help solve global problems in global markets using its suite of patented products by employing experts in the removal of microbial contamination (biofilm or slime) and then protecting the asset from recontamination and reducing energy consumption. The Company, via its patented AeriGuard solution, removes the biofilm from air-conditioning and refrigeration systems, and then protects the system from recontamination for up to 12 months. The major benefits to the customer are significant

energy savings, healthier indoor air quality and improved environmental comfort to staff. The Company's biological water systems remediate and control biofilm in large bulk water systems such as coal mines, groundwater treatment plants and the water filtration / purification industry, helping to enhance OH&S risk management strategies. The Company always tries to deal with business associates who demonstrate similar ethical and responsible business practices.

The Company has a policy concerning trading in its securities by Directors, senior executives, employees and significant consultants, which is summarised under Securities Trading and Trading Windows below.

#### Principle 4: Safeguard integrity in corporate reporting

The Company has formal and rigorous processes that independently verify and safeguard the integrity of its corporate reporting. The Company's Board follows the ASX Corporate Governance Council's recommendation of having an Audit Committee, all of the members of which are Non-Executive Directors, chaired by a Director who is not the Chairman of the Board i.e. Messrs Bernard Stang (Chairman of the Committee) and Maurie Stang. These Directors have applicable expertise and skills, and are suitably qualified, for this Committee. The relevant qualifications and experience of these members can be found at the Director Profile section of the Company's website, as well as in the Directors' Report of the Annual Report. However, this structure does not meet the ASX's recommendation that this Committee should have at least three members, a majority of whom are independent directors (both Committee members are substantial shareholders and are therefore not considered independent), including the Committee's Chairman. The Committee has a formal charter that has been approved by the Board and disclosed on the Company's website. The Audit Committee reports to the Board after each Committee meeting and after meeting with the Company's external auditors; meetings are held at least twice each year. During the 2013-14 financial year the Audit Committee met in September 2013 (Mr Bernard Stang attended, but Mr Maurie Stang was overseas, and Dr Fisher and Mr Bush attended on his behalf) and in February 2014 (Messrs Maurie and Bernard Stang were both present, as were Dr Fisher and Mr Bush). In conjunction with the full Board, the Audit Committee reviews the performance of the external auditors (including the scope and quality of the audit). The primary responsibilities of the Audit Committee are to oversee the existence and maintenance of internal controls, accounting systems and the financial reporting process, to nominate external auditors and to review existing external audit arrangements, including the selection, appointment and rotation of external audit engagement partners.

The Company periodically reviews its procedures to ensure compliance with the recommendations set out under this principle. The Board of the Company receives from its CEO and CFO (before it approves the Company's financial statements for a financial period) a declaration that, in

their opinion, the financial records of the Company have been properly maintained and that the financial statements comply with the appropriate accounting standards. The declaration also states that the financial statements give a true and fair view of the financial position and performance of the Company, and that their opinion has been formed on the basis of a sound system of risk management and internal control, which is operating effectively.

The Company ensures that its external auditor UHY Haines Norton attends its Annual General Meeting and is available to answer questions from security holders relevant to the audit. This has been supported by the Company's audit partner.

#### Principle 5: Make timely and balanced disclosure

The Company makes timely and balanced disclosure of all matters concerning it that a reasonable person would expect to have a material effect on the price or value of its securities. The Company, its Directors and its staff are aware of the ASX's continuous disclosure requirements, and operate in an environment where strong emphasis is placed on full and appropriate disclosure to the market. The Company has a formal written policy for complying with its continuous disclosure obligations under the ASX Listing Rules. The Company has disclosed that policy on its website under its Code of Conduct in its Corporate Governance Compliance Manual. A regular review takes place to ensure compliance with ASX Listing Rule 3.1 on continuous disclosure and there is accountability at a senior executive level for that compliance. The Company maintains a register of matters considered for possible market disclosure.

#### Principle 6: Respect the rights of security holders

The Company respects the rights of its security holders by providing them with appropriate information and facilities to allow them to exercise those rights effectively. The Company provides information about itself and its governance to investors via its website [www.aeris.com.au](http://www.aeris.com.au). Here, interested parties can find information about the Company under the homepage heading "About Us" and can also find information on the Company's Corporate Governance under the homepage heading "Investor Centre". The names, photographs and brief biographical information for each of the Company's Directors and senior executives can be found under Director Profiles. The Company has included on its website links to copies of its Annual Reports and financial statements, copies of its announcements to ASX, and copies of Notices of Meetings of security holders and any accompanying documents. It also provides information on the Company's technologies and businesses. Up-to-date Company share price information can be monitored on the Investor Centre section of the website, and visitors who enter their personal details and alert preferences on the Email Alert part of the Investor Centre can subscribe to receive alerts from the Company as important company information



becomes available to the market. The Investor Centre section of the Company's website also holds shareholder services such as the Share Register's contact details, and a link for shareholders to check their security holdings details and change their shareholding records where necessary. The Company's contact details, as well as a section on frequently asked corporate questions for consumers, distributors and investors, can also be found on the Company's website. When analysts are briefed on aspects of the Group's operations, the material used in the presentation is released to the ASX and posted on the Company's website. Procedures have also been established for reviewing whether any material price-sensitive information has been inadvertently disclosed, and if so, this information is also immediately released to the market.

The Company has designed and implemented an investor relations programme to facilitate effective two-way communication with investors. The Company has an appropriate communications policy to promote effective communication with shareholders, which is in line with the Company's size and its financial capacity. The Company gives security holders the option to receive communications from, and send communications to, the Company and its security registry electronically, as detailed on its website. The small size of the Company means that, the main ways that the Company allows investors and other financial market participants to gain a greater understanding of the Company's business, governance, financial performance and prospects is by encouraging shareholder participation at AGMs, where it actively engages with security holders, and meeting with security holders upon request and responding to any enquiries they may make from time-to-time. When investors and other financial market participants express their views to the Company on matters of concern or interest to them those views are distilled and communicated to the Board. References to the Company's communications policy are included in the Corporate Governance section of the Company's website.

### Principle 7: Recognise and manage risk

The Company has established a sound risk management framework and periodically reviews the effectiveness of that framework. Whilst the Board of the Company does not have a separate committee to oversee risk, it does have processes it employs for overseeing the Company's risk management framework. The Company has an appropriate formal policy for the oversight and management of material business risks that is fitting with the size of its business. Risk management arrangements are the responsibility of the Board of Directors and senior management collectively. Company and business risk factors are an agenda item at each Board meeting and the CEO periodically reports to the Board on risk management, internal controls and the Company's insurance programme. The Board regularly reviews the Company's risk management framework to satisfy itself that it continues to be sound, and discloses, in relation to each reporting period, whether such a review has taken place. Corporate risk factors are also reviewed by the Audit Committee. The Audit Committee Charter and its references to risk management

are included in the Corporate Governance section of the Company's website. The Company does not have an internal audit function. The processes the Company employs for evaluating and continually improving the effectiveness of its risk management and internal control processes include: the review of its actual versus budget variances in revenue and expenses; and the periodic review of source accounting documentation by someone independent of the Accounts Department and independent of the regular accounting documentation approval process. The Company discloses on its website its material exposure to economic, environmental and social sustainability risks, and how it manages those risks and it believes that, if it is successful in the rollout of its technologies, it can have a positive long-term effect on society and on the environment through the provision of cleaner air and water using energy-saving products.

### Principle 8: Remunerate fairly and responsibly

The Company pays Director remuneration that is sufficient to attract and retain high-quality Directors, and has designed its executive remuneration to attract, retain and motivate high-quality senior executives, and to align their interests with the creation of value for security holders. The Board of the Company has a Remuneration and Nomination Committee that was established in December 2004. The structure of the Remuneration and Nomination Committee does not comply with the ASX recommendations in that it does not have at least three members, a majority of whom are independent Directors, and it is not chaired by an independent Director. During the financial year, the Remuneration and Nomination Committee consisted of Mr Maurie Stang (Committee Chairman) and Dr Fisher. The charter of the Committee can be found in the Corporate Governance Manual on the Company's website, and clearly sets out the Committee's role and confers on it all necessary powers to perform that role. At the end of each reporting period, the Board discloses the number of times the Committee met throughout the period and the individual attendances of those meetings. The Committee meets as and when required to review performance matters, and make recommendations to the Board in relation to the Company's remuneration framework for Directors, including the process by which any pool of Directors' Fees approved by security holders is allocated to Directors, and in relation to the remuneration packages to be awarded to executives, equity-based remuneration plans for executives and other employees, superannuation arrangements for Directors, executives and other employees, and in relation to whether there is any gender or other inappropriate bias in remuneration for Directors, executives or other employees. There has been no formal performance evaluation of the Board during the past financial year, although its composition has been discussed at Board meetings, at the Remuneration and Nomination Committee meeting and will in the future be reviewed at Board and Committee meetings, at least annually. The Directors work closely with management, and have full access to all the Company's files and records. The Company seeks independent



external advice and market comparisons as necessary. The Company has an equity-based remuneration scheme, being its Employee Share Option Plan (ESOP), which was approved by shareholders at the November 2007 AGM. The Company has a policy that participants in the ESOP are not permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme. There are no schemes for retirement benefits, other than superannuation, for Non-Executive Directors. The Directors believe that the size of the Company makes individual salary and contractor negotiation more appropriate than formal remuneration policies. A clear distinction between, and description of, the structure of Non-Executive Directors' remuneration, and the CEO and executive remuneration, is set out in the Remuneration Report (contained in the Directors' Report), and, in accordance with Corporations Act requirements, the Company discloses the fees and salaries paid to all Directors, plus its highest paid officers. The Company separately discloses its policies and practices regarding the remuneration of Non-Executive Directors, and the remuneration of Executives.

## Securities Trading and Trading Windows

The Company has a Share Trading Policy under which Directors, management and other employees likely to be in possession of unpublished price-sensitive information, and their associates (Designated Officers), may not trade in the Company's securities during the following Blackout Periods commencing:

- 30 days prior to the release by the Company of its half-yearly results to the ASX and concluding two days after such release; and
- 30 days prior to the release by the Company of its annual results to the ASX and concluding two days after such release.

In addition, consistent with the law, Designated Officers are prohibited from trading in the Company's securities while in the possession of unpublished price-sensitive information concerning the Company. Unpublished price-sensitive information is information regarding the Company, of which the market is not aware, that a reasonable person would expect to have a material effect on the price or value of the Company's securities.

Notice of an intention to trade must be given to the Aeris Managing Director / CEO (or Chairman in the case of the Directors) prior to trading in the Company's securities, as well as a confirmation that the person is not in possession of any unpublished price-sensitive information. The completion of any such trade by a Director must also be notified to the Company Secretary who in turn advises the ASX.

## Exceptional Circumstances when Trading may be Permitted

A person may trade in the Company's securities inside a Blackout Period only if prior written clearance is obtained in accordance with the procedure described below and in the following exceptional circumstances:

- if the person granting the prior written clearance is satisfied that the person seeking the clearance does not possess unpublished price-sensitive information about the Company and the person seeking clearance is in severe financial hardship;*
- if the person granting the prior written clearance is satisfied that the person seeking the clearance does not possess unpublished price-sensitive information about the Company and there are other circumstances deemed to be exceptional by the person granting the prior written clearance; or*
- where trading is required for compliance with a court order or court enforceable undertakings, or for some other legal or regulatory requirement.*

## Procedures for Obtaining Clearance Prior to Trading

Designated Officers must not trade in the Company's securities at any time, including in the exceptional circumstances referred to above, unless the Designated Officer obtains prior written clearance from the Company Secretary, or in his / her absence the Managing Director / CEO. Permission will be obtained utilising the following authorisation levels:

- in the case of employees, contractors, consultants and advisers of the Company, the Company Secretary;*
- in the case of a Director or senior executive, the Chairman, or in his / her absence, the Managing Director / CEO;*
- in the case of the Managing Director / CEO, the Chairman or, in his / her absence, the Chairman of the Audit Committee; or*
- in the case of the Chairman, the Managing Director / CEO and the Company Secretary, jointly.*

A request for prior written clearance under this policy should be made in writing.

## ADDITIONAL INFORMATION

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report.

This information was prepared based on share registry information processed on 11 September 2014.

### SHAREHOLDING

#### *Distribution of Shareholders*

Analysis of numbers of listed ordinary shareholders by size of holding:

Spread of Holdings	Number of Holders	Ordinary shares	% of Total Issue Capital
1 - 1,000	38	25,397	0.02
1,001 - 5,000	122	359,692	0.31
5,001 - 10,000	109	931,677	0.79
10,001 - 100,000	239	9,281,262	7.88
100,001 - and over	110	107,148,676	91.00
<b>TOTAL</b>	<b>618</b>	<b>117,746,704</b>	<b>100.00</b>

On 11 September 2014 there were 95 shareholders holding less than a marketable parcel of \$500 worth of shares at a share price of 20 cents. There are no restricted securities on issue.

## Statement of Shareholdings at 11 September 2014

The names of the twenty largest holders of ordinary shares are listed below:

Shareholder	Number of Shares	% Holding
Mr Maurie Stang	17,779,749	15.10
Mr Bernard Stang	14,331,609	12.17
Link Traders (Aust) Pty Ltd	10,050,948	8.54
Mr Steven Kritzler < S Kritzler Family A/C >	7,331,609	6.23
Mr Giuseppe Pulitano + Ms Verona Pulitano < The Pulitano Family S/F A/C >	6,503,572	5.52
Australian Shareholder Nominees Pty Ltd	3,379,986	2.87
Mrs Shirley Rose Ehrlich	3,170,803	2.69
Towns Corporation Pty Ltd	2,751,833	2.34
Henderson International Pty Ltd < Henderson Super Fund A/C >	2,016,858	1.71
UBS Wealth Management Australia Nominees Pty Ltd	1,972,000	1.67
Jamber Investments Pty Ltd < Amber Schwartz Family A/C >	1,964,843	1.67
Mr Joshua Aaron Ehrlich	1,700,000	1.44
Helensleigh Pty Ltd < Helensleigh Staff S/F A/C >	1,574,702	1.34
Lupetto Holdings Ltd	1,500,000	1.27
Grizzley Holdings Pty Limited	1,388,275	1.18
Ms Elizabeth Sy	1,250,000	1.06
Bennelong Resources Pty Limited	1,185,000	1.01
Ron-Ton Fashions Pty Ltd < Retirement Fund A/C >	1,088,312	0.92
Mr Bernard Stang & Mr Maurie Stang < Medi-Consumables S/F A/C >	1,020,000	0.87
Benlee Company Pty Ltd < The Benlee A/C >	1,015,210	0.86
<b>Total of Top 20 Holdings</b>	<b>82,975,309</b>	<b>70.46</b>
<b>Other Holdings</b>	<b>34,771,395</b>	<b>29.54</b>
<b>Total Ordinary Shares</b>	<b>117,746,704</b>	<b>100.00</b>

## UNQUOTED EQUITY SECURITIES

For details of unissued ordinary shares of the Company under option refer to "Share Options" section of the Directors' Report.

## VOTING RIGHTS

All ordinary shares carry one vote per share without restriction. On a show of hands every member present at a general meeting or by proxy shall have one vote and upon a poll each share shall have one vote. Option holders have no voting rights until the options are exercised.

## SUBSTANTIAL SHAREHOLDERS

Substantial shareholders in the Company based on Substantial Shareholder Notices received by the Company are set out below.

Name	Number	Class
Mr Maurie Stang	18,752,267	Ordinary
Mr Bernard Stang	14,864,109	Ordinary
Link Traders (Aust) Pty Ltd	8,936,038	Ordinary
Mr Steven Kritzler	7,331,609	Ordinary



## CORPORATE DIRECTORY

### DIRECTORS

Maurie Stang	Chairman
Steven Kritzler	Non-Executive Director
Bernard Stang	Non-Executive Director
Peter Bush	Chief Executive Officer, Chief Financial Officer and Alternate Director

### COMPANY SECRETARY

Robert Waring

### REGISTERED OFFICE

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Email: [info@aeris.com.au](mailto:info@aeris.com.au)

Web: [www.aerisenvironmental.com](http://www.aerisenvironmental.com)

### SHARE REGISTRY

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GPO Box 2975, Melbourne

VIC 3001 Australia

Telephone: +61 3 9415 4000

Telephone: 1300 850 505 (within Australia)

Facsimile: +61 3 9473 2500

Web: [www.computershare.com](http://www.computershare.com)

### AUDITORS

UHY Haines Norton

### STOCK EXCHANGE LISTING

The Company's securities are quoted on the official list of the Australian Securities Exchange – ASX.

### ASX CODE

AEI – Shares