

Aeris Environmental



# **Aeris Environmental Ltd**

**and controlled entities**

**ABN 19 093 977 336**

## **Financial Report**

**for the year ended 30 June 2018**



# Aeris Environmental Ltd

ABN 19 093 977 336

and its controlled entities

## Financial Report

for the year ended 30 June 2018

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# Aeris Environmental Ltd

AND CONTROLLED ENTITIES

## DIRECTORS' REPORT

30 JUNE 2018

The Directors of Aeris Environmental Ltd submit herewith the Annual Financial Report for the financial year ended 30 June 2018. In order to comply with the provisions of the *Corporations Act 2001*, the Directors' Report is as follows:

### Directors

The names and details 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 M Stang is a director of the Regional Health Care Group of companies and of Novapharm Research. He has over 30 years of experience 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 M 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 in 2002.

*Directorship of other listed companies held in the last three years:* Non-Executive Chairman of Nanosonics Limited (ASX:NAN) since November 2000.  
Non-Executive Deputy Chairman of Vectus Biosystems Limited (ASX:VBS) since December 2005.

#### **Steven Kritzler**

##### **Non-Executive Director**

Mr Kritzler (M.Sc from the UNSW in the field of Polymer Chemistry) holds a number of international patents. He is the Technical Director of Novapharm Research. Mr Kritzler has over 40 years of experience in commercial R&D in the areas of pharmaceutical, medical, cosmetic and specialty industrial products. Under his technical direction, Novapharm Research has become a world-leader in infection control science.

Director since 2002.

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

#### **Bernard Stang**

##### **Non-Executive Director**

Mr B Stang (B.Arch) is a Co-Founder and Director of the Regional Health Care Group of companies. He serves as the Chief Executive Officer of Stangcorp Pty Ltd, Stoneville Ltd and Brunswick Property Pty Ltd, which are key property entities in the Stang Group. Mr B Stang manages a broad portfolio of investments in the private and listed sectors, and has enjoyed over 40 years of operational leadership in successful healthcare businesses. He serves as a Director of Novapharm Research. Mr B Stang is a Director of Weizmann Australia, which represents the Weizmann Institute of Science in Australia, and the Institute has recently established the Garvan-Weizmann Centre of Cellular Genomics in Sydney, in joint venture with the Garvan Institute. He served as a Non-Executive Director of Nanosonics Limited until 2007.

Director since 2002.

*Directorship of other listed companies held in the last three years:* Non-Executive Director of Vectus Biosystems Limited from December 2005 until October 2016.

#### **Alex Sava**

##### **Non-Executive Director**

Dr Sava (M.Sc in Chemical Engineering, PhD in Physical Chemistry) spent seven years earlier in his career with the Institute of Semiconductors in Ukraine and four years as a Vice President of New York-based MicroMax Computer Intelligence Inc. He holds over 100 international patents and has authored over 50 scientific articles. Dr Sava was a Founder and Board member of Nanosonics Pty Ltd from 14 November 2000 until prior to its listing on ASX on 15 May 2007 as Nanosonics Limited (ASX:NAN). He also made a substantial contribution to the later success of Nanosonics Limited and has undertaken business development activity across many international markets. Dr Sava has scientific, regulatory and commercial experience.

Director since 3 October 2016.

*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 (B.Com, CA) is the Chief Financial Officer of the Regional Health Care Group of companies (one of the region's leading diversified healthcare product suppliers, with successful businesses across a range of medical, pharmaceutical, consumer healthcare, and research and development sectors) and of GryphonCapital (an independent merchant bank that facilitates the financing and development of emerging healthcare-related entities). He 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.

Alternate Director since 2011.

*Directorship of other listed companies held in the last three years:* Non-Executive Director of Vectus Biosystems Limited (ASX:VBS) since July 2015.

# Aeris Environmental Ltd

AND CONTROLLED ENTITIES

## DIRECTORS' REPORT

30 JUNE 2018

### Robert Waring Company Secretary

Mr Robert J Waring (B.Ec, CA, FCIS, FFin, FAICD) was appointed to the position of Company Secretary of the Company in 2002. He has over 40 years of experience in financial and corporate roles, including over 25 years in company secretarial roles for ASX-listed companies and over 19 years as a Director of ASX-listed companies. Mr Waring has over 30 years of experience in industry and, prior to that, spent nine years with an international firm of chartered accountants. He is a director of Oakhill Hamilton Pty Ltd, which provides company secretarial and corporate advisory services to a range of listed and unlisted companies. Mr Waring is also presently the Company Secretary of ASX-listed companies Cobalt Blue Holdings Limited (ASX:COB), Vectus Biosystems Limited (ASX:VBS) and Xref Limited (ASX:XF1).

### Share Registry

Computershare Investor Services Pty Ltd  
Yarra Falls, 452 Johnston Street  
Abbotsford VIC 3067  
GPO Box 2975, Melbourne VIC 3001  
Telephone: +61 3 9415 4000  
Web: www.computershare.com

### 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	4	1	2
Number of meetings attended				
Maurie Stang	8	4	1	2
Steven Kritzler*	7	-	-	1
Bernard Stang	8	4	1	2
Alex Sava	8	-	-	-

\* Mr Kritzler was appointed a member of the Remuneration and Nomination Committee on 19 October 2017 and attended the meeting that was held after this time.

In addition to the above meetings the Board and senior executives conduct formal management 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 financial year were:

#### Audit Committee

Bernard Stang (Chairman)  
Maurie Stang

#### Corporate Governance Committee

Maurie Stang (Chairman)  
Bernard Stang

#### Remuneration and Nomination Committee

Maurie Stang (Chairman)  
Bernard Stang  
Steven Kritzler      Appointed 19 October 2017

### 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 HVAC/R Hygiene and Remediation Technology; and
- provision of Energy Efficiency solutions.

There is no significant change in the nature of activities performed by the Company during the financial year.

### Review of Operations

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

	2018 \$	2017 \$
Income	2,770,897	2,882,259
Expenses	(6,001,782)	(6,634,524)
Loss after income tax	(3,230,885)	(3,752,265)

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

## Chairman and CEO Report

Aeris' resources during the 2017-18 financial year have been directed at transformation milestones. Specifically, the Company reaffirmed its commitment to the North American market and the internationalisation of its product portfolio, including regulatory and technical studies. Critically, Aeris has focussed on strategic partnerships with global companies that can deliver market penetration and customers in their own right.

The Company is successfully scaling its 'accelerated growth' strategy. Our material investments to-date in product development, regulatory approvals, customer validation and global branding have reached an inflection point, with increasing interest and commitment from high-profile customers and distributors in each of the core business units, being AerisGuard consumables, AerisCoat Anti-Corrosion, and SmartHUB SmartENERGY and control.

The Company is now expanding its support capability to provide its key distributors and commercial partners with comprehensive training, in-field technical services, and applicable regulatory registrations, supply chain management and improved efficiency in international markets. Aeris is winning project and annuity business by actively working with companies that have reach and depth in our priority global markets, both geographically and in each of our business units – hygiene and consumables, corrosion, visualisation, control and optimisation (SMART IOT enabled systems).

During the 2017-18 financial year, the Company announced that it had successfully executed new and expanded business with marquee clients and projects. These include the establishment of an e-commerce platform jointly with The Rexel Group, the signing of a Master Services Agreement with Sodexo, and commencing projects with ENGIE at the Visy Tumut production facility and with St Benedict's College, Townsville, a leading independent school in Queensland. Additionally, the Company's platinum partnership programme now has over 25 partners confirmed in Australia, Asia, Europe, the Middle East and now the USA, and we have commenced doing business with five major global air-conditioning manufacturers.

The drivers for increased adoption are Aeris' proven capability to remove toxic and dangerous chemicals and pollutants from the 'built environment', to demonstrate energy savings of 20-30%, to 'demand improvements' of over 50%, and materially extend asset life and extend coil life by up to 500%. Aeris continues to gain commercial interest on its SMART ecosystem by not only providing increased energy efficiency and indoor environment quality, but also by offering baseline monitoring and real-time reporting. The positive impact of our 'clean, green' technologies has enabled the live monitoring of the key assets using the Aeris suite of environmental solutions.

The Company wishes to recognise the outstanding effort of its team, who has worked tirelessly to see Aeris' disruptive technologies achieve success on the world stage. Importantly, the 'domain knowledge' brought to us by each of our strategic and platinum partners has greatly expanded the Company's capability to deliver and implement its products across multiple applications and industries. These insights are brought to us by companies that are existing market leaders in the very fields that we are pursuing and each of these partners has recognised by the in-field performance of the Aeris portfolio.

We are assessing several options regarding capital to underpin Aeris' growth objectives, whilst putting in place ongoing trade agreements targeting substantial revenue growth. As outlined in previous ASX announcements, the Company has received additional loan funding from its Directors, at an interest rate that is tied to the Australian Taxation Office (ATO) benchmark interest rate, and in July 2018 the Company received a cash-back of \$667,000 from the ATO for its research and development (R&D) activities for the financial year ended 30 June 2017. The 2018 R&D ATO cash-back of approximately \$450,000 is expected in the December 2018 quarter.

Aeris continues to generate attractive margins, has a firm control on costs and a relatively-low fixed overhead. Aeris has a strong pipeline of sales opportunities with leading customers, platinum partners and 'specifying consultants', particularly in the USA, Asia and Europe. In the 2018-19 financial year the Company's target is to continue to develop contracted recurring revenue streams, improve operating cash flows, and is highly focussed on delivering sales growth leveraging our current commercial pipeline and through a number of potentially transformative discussions that are currently underway.

The market dynamics are providing increased opportunities for system and energy efficiency, clean technology, asset life cycle cost reduction and SMART devices. The Company recognises that its significant investments to-date, in these technologies, have an absolute commercial priority in generating sustainable growth in profitable annuity business and maximising shareholder value.

**Maurie Stang**

Non-Executive Chairman

**Peter Bush**

Chief Executive Officer

## Review of Operations

The financial year ended 30 June 2018 has seen Aeris scale-up its commercial production capabilities, with a multi-region focus. This has been achieved by a combination of optimising the Company's supply chain, preparing Aeris' key product portfolios for international rollout and working on developing relationships with international leaders that have existing paths to market.

Aeris has a growing base of ongoing contracted business, which, together with the increasing adoption of the Aeris technologies in its key business units of Corrosion, Hygiene, Control and Service, and its international distributors and customers, underpins accelerating and sustained momentum into 2019 and beyond.

### Highlights included:

- Core products for each business unit – AerisCoat Anti-Corrosion, AerisGuard Hygiene consumables, and Smart HUB SmartENERGY and Control – are all now commercially launched and gaining acceptance in the Company's key global markets.
- Several global strategic partnerships are moving towards final agreements and commercial rollout following increased investment on core strategic markets in the USA, Europe and Asia Pacific.
- Focus on a clear path to market with partners who determine product usage and specification.
- Solid growth of hygiene, mould and remediation, delivered through agreements with distributors, each having minimum annual purchase commitments.
- A growing forward pipeline for Aeris SmartHUB, AerisView and Building Management Systems projects, following successful completion of further work in this area.
- Large-volume sales of corrosion coatings continue for key global accounts, with rapidly-increasing adoption of the AerisCoat OEM corrosion prevention and protection system.
- 2017-18 financial year cash receipts from customers of \$2.72 million, a 50% increase on the prior corresponding year (FY2017 \$1.81 million). Cash receipts of \$1.26 million for July and August 2018, including \$667,000 ATO R&D cash-back.
- A strong pipeline of sales opportunities with leading customers, platinum partners and 'specifying consultants' internationally.

### Commentary

During the 2017-18 financial year, the Company's attention was on scaling production, building the Aeris sales channels and successfully accelerating its key business segments, being corrosion prevention, asset management monitoring/control, mould and hygiene. The Company has been developing relationships with international leaders that have existing sales channels and can exert substantial influence on customers to adopt Aeris' 'clean, green' technologies. In this year the Company has signed additional platinum partnership agreements, received orders and trained applicators in each of the following territories, being Australia, India, the USA, Malaysia, the United Arab Emirates, Vietnam, the Philippines, Hong Kong and New Zealand.

The Company continues to receive positive feedback from large-scale potential partners with the aim of replacing legacy products with the more modern Aeris products. These developments deliver broad efficiency improvements resulting in assets that are demonstrably more efficient, last longer and are safer for both the operator and the environment.

Consumables and corrosion protection products are successfully being marketed by the Company as an integrated solution to Aeris' asset efficiency offerings. In the USA, the Company has targeted channels to market that will provide access for Aeris' products at all the points of need across North America.

The Company's one-step, water-based, long-life AerisCoat corrosion prevention solutions are attracting high levels of interest globally from highly-respected Original Equipment Manufacturers (OEM) in Heating, Ventilation and Air-Conditioning (HVAC) and heat exchangers, and on-site in large industrial, transport and manufacturing plants.

There have been important commercial developments with Aeris' anti-corrosion coatings, which are water based with single step easy application and which are often the only available option in high-profile challenging environments. The products have applications from mining operations, in oil rigs and in pipelines, and continue being adopted by leading technical service groups and HVAC manufactures internationally.

The Company is concentrating on agreements to drive its proprietary technologies into vertical applications covering oil and gas, air-conditioning, refrigeration, transport, manufacturing and facilities management. Aeris signed a supply agreement with Impreglon Australia Pty Ltd (Impreglon), an international company with 35 years' experience in the metal finishing industry. Impreglon will exclusively purchase and apply the AerisCoat Corrosion protection and prevention products to all HVAC, and refrigeration units and coils that are processed at its Australian operations. A Master Service Agreement had previously been executed with Sodexo (one of the world's leading facilities management companies), and the AerisGuard room remediation and deep cycle hygiene have been successfully implemented for Sodexo. Further material orders from Sodexo are expected so as to meet a pipeline of

opportunities for Aeris' products, which have been identified for utilisation in the 'built environment' for on-site camps, mining, temporary housing, facilities management, and offshore oil and gas industries.

Aeris has expanded the technical capability of its SmartHUB ecosystem, which has seen validation within key customer groups, and is currently being scaled into a commercial rollout directly through key customers, wholesale and platinum distribution partners. The Company has the ability to drive efficiency and improve asset performance with integrated and scalable, yet simple-to-implement, solutions. The Aeris SmartHUB ecosystem delivers benefits that other building information and management systems, concentrating on data only, do not achieve. Each unit can provide full control of air-conditioning systems, including remote graphics interface, visualisation of space temperatures, unit status and alarms. Building conditions information, such as ambient temperature and relative humidity data, can be displayed on the interface via application programming interface (API) feed from the internet. This data, in conjunction with energy data and unit information, can be used as necessary for peak demand management and control through implementations of the Company's SmartENERGY strategy.

The Company is now focusing its resources on supporting its key partners and platinum distributors with in-field technical services and product support, together with applicable regulatory registrations in key markets. Aeris' scalable model continues to provide attractive margins by minimising the downstream cost of end customer acquisition, retention and servicing.

The Company is targeting the completion of several material agreements in North America and internationally in the near-term. Each of these potential agreements on which Aeris is focused is with counterparties who are leaders in their respective markets and have already provided good insight as to their sales potential with the Company's range.

Aeris has put in substantial resources into its manufacturing and supply chain capability in anticipation of material growth in its product sales through its newly-established distribution network. As part of this strategy, the Company is increasing its inventory of long lead time components and raw materials so as to minimise constraints on sales that would result from the lead times on manufacturing.

Aeris is now expanding its capability in terms of investor relations and shareholders' communications. The Company has put in place a clear strategy of activities targeted at both retail and institutional investors, including updating Aeris' branding of products and product information on its website, and regular roadshows with brokers and investors. Aeris has conducted highly-successful trade shows in Australia and overseas, which have substantially increased the Company's profile and presence with end customers, trade wholesalers and key facility management companies.

#### About Aeris Environmental Ltd

Aeris develops, manufactures and markets patented, environmentally-friendly technology solutions that address the global megatrends of energy efficiency, healthier air, food safety, water quality and long-term materials protection, with core guiding principles of 'clean, green, protect'. Smart Enzymes and Coatings provide long-term remediation, and prevention of mould, bacteria growth, corrosion and improved hygiene, with OEM, consumer and technical applications. SmartENERGY provides dramatic and proven energy savings in the range of 19% to 33%, alongside documented improvement in system efficiency (54% to 289% improvement in airflow and up to 40% in coil efficiency), and independently-validated indoor air quality across all air-conditioning and refrigeration systems, with proven immediate cash flow savings.

# Aeris Environmental Ltd

AND CONTROLLED ENTITIES

## DIRECTORS' REPORT

30 JUNE 2018

### Dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 30 June 2018 (2017: 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 Group.

### Significant events after the balance date

In the opinion of the Directors, no 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 a Deed of Access and Indemnity with each of its 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 to 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 financial year.

### Directors' interests

Equity holdings	Ordinary shares	Rights over ordinary shares
Maurie Stang	20,398,290	-
Bernard Stang	17,227,196	-
Steven Kritzler	8,331,609	-
Alex Sava	68,025	100,000
Peter Bush	750,000	1,323,537



**Aeris Environmental Ltd**  
**AND CONTROLLED ENTITIES**  
**DIRECTORS' REPORT**  
**30 JUNE 2018**

**Options or rights granted to Directors and Officers of the Company**

During or since the end of the 2018 financial year, the Company granted options or rights for no consideration over unissued ordinary shares in Aeris Environmental Ltd to the following Directors and Officers.

	<b>2018</b>	<b>2017</b>
Performance Rights issued to Peter Bush	1,323,537	-
Options granted to Alex Sava	-	100,000
Options granted to Robert Waring	-	50,000

<b>Particulars of options or rights granted over unissued shares</b>	<b>2018</b>	<b>2017</b>
Number of options or rights on issue over unissued ordinary shares	1,695,000	1,845,000
Shares issued in the period as the result of the exercise of options or rights	50,000	900,000
Options or rights expired during the period	200,000	20,000
Options or rights granted during the period	100,000	1,495,000

Full details of options or rights on issue are shown in Note 18.

**Non-audit services**

During the financial 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 financial 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 financial 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 2018 is attached to this Directors' Report on page 14.

**Corporate Governance**

Aeris Environmental Ltd's Corporate Governance Statement and ASX Appendix 4G are released to ASX on the same day the Annual Report is released. The Company's Corporate Governance Statement, and its Corporate Governance Compliance Manual, can be all found on the Company's website at: <https://www.aeris.com.au/investor>

**Aeris Environmental Ltd**  
**AND CONTROLLED ENTITIES**  
**DIRECTORS' REPORT**  
**30 JUNE 2018**

## REMUNERATION REPORT (AUDITED)

### Key Management Personnel (KMP)

The KMP of the Company comprise the Directors, Chief Executive Officer and Company Secretary only, as follows:

**Non-Executive Directors**

Maurie Stang  
Bernard Stang  
Steven Kritztler  
Alex Sava

**Executive**

Peter Bush (Chief Executive Officer and Alternate Director)

**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 that 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

**(b) Non-Executive Directors**

During the 2017 financial year, 100,000 share options were issued to Alex Sava, Non-Executive Director, with an exercise price of \$0.42 and having a vesting period of three years. Payments to Non-Executive Directors are 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.

During the 2018 financial year, Peter Bush has been issued with a total of 1,323,537 performance rights in respect of his short and long-term incentivisation programme for services for the years ended 30 June 2015, 2016 and 2017. All of the abovementioned performance rights will vest as to 33% on 11 April 2019 (being one third), 33% on 11 April 2020 (being one third) and the final 33% (being the balance) on 11 April 2021, and will expire if not converted on 11 April 2022.

**(d) Short-term incentives (STI)**

During the financial year ended 30 June 2017, STIs were paid to Peter Bush, Chief Executive Officer, in cash for the achievements against annual performance targets set by the Board at the beginning of the performance period. The performance objectives of Aeris are currently directed to achieving financial targets (sales) complemented by achievement of individual performance goals. All targets are set having regard to prior year performance, market conditions and the Board-approved budgets. Specific targets are not provided in detail due to their commercial sensitivity. The STI arrangement is reviewed annually by the Board.

**(e) Long-term incentives (LTI)**

The LTI provide an annual opportunity for selected executives to receive awards in cash and equity. The equity portion, being performance rights, vest over three years and is intended to align a significant portion of an executive's overall remuneration to shareholder value over a longer term. Equity grants are subject to performance conditions (revenue and / or earnings per share) and are tested against the performance hurdles set at the end of three financial years. If performance hurdles are not met at the vesting date, the rights and options lapse. In addition, performance rights and options will only vest if the executive KMP member remains in continuous employment with Aeris in their current or equivalent position from the date of grant to the respective vesting date of each grant.

**(f) Share option based compensation**

In February 2005, Aeris established an Employee Share Option Plan (ESOP). The ESOP was approved by shareholders at the Annual General Meeting held on 25 November 2004 and was re-approved by shareholders at the Annual General Meeting held on 27 November 2014. The terms of the ESOP provide for the following conditions:

- (i) Vesting
  - 33.33% vest on the first anniversary of grant of options
  - 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 ranges from three to five years.
- (iii) The exercise price determined in accordance with the Rules of the ESOP 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.

# Aeris Environmental Ltd

## AND CONTROLLED ENTITIES DIRECTORS' REPORT

30 JUNE 2018

### REMUNERATION REPORT (AUDITED)

#### 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 Executive, including their personally-related entities, are as follows:

2018 Shares	Number held on 30 June 2017	Acquired during year	Sold during year	Issued on exercise of options	Number held on 30 June 2018
<b>Specified Directors</b>					
Maurie Stang	20,621,822	-	(223,532)	-	20,398,290
Bernard Stang	17,003,664	223,532	-	-	17,227,196
Steven Kritzler	8,331,609	-	-	-	8,331,609
Alex Sava	68,025	-	-	-	68,025
<b>Specified Executives</b>					
Peter Bush	750,000	-	-	-	750,000
Robert Waring	173,000	67,857	-	-	240,857
	46,948,120	291,389	(223,532)	-	47,015,977

	Number held on 30 June 2017	Granted during year	Lapsed during year	Exercised during year	Number held on 30 June 2018
<b>Options and rights</b>					
<b>Specified Directors</b>					
Maurie Stang	-	-	-	-	-
Bernard Stang	-	-	-	-	-
Steven Kritzler	-	-	-	-	-
Alex Sava	100,000	-	-	-	100,000
<b>Specified Executives</b>					
Peter Bush	-	1,323,537	-	-	1,323,537
Robert Waring	50,000	-	-	-	50,000
	150,000	1,323,537	-	-	1,473,537

2017 Shares	Number held on 30 June 2016	Acquired during year	Sold during year	Issued on exercise of options	Number held on 30 June 2017
<b>Specified Directors</b>					
Maurie Stang	19,816,267	805,555	-	-	20,621,822
Bernard Stang	15,928,109	1,075,555	-	-	17,003,664
Steven Kritzler	8,331,609	-	-	-	8,331,609
Alex Sava (appointed on 3 October 2016)	58,025	10,000	-	-	68,025
<b>Specified Executives</b>					
Peter Bush	-	-	-	750,000	750,000
Robert Waring	103,000	70,000	-	-	173,000
	44,237,010	1,961,110	-	750,000	46,948,120

	Number held on 30 June 2016	Granted during year	Lapsed during year	Exercised during year	Number held on 30 June 2017
<b>Options and rights</b>					
<b>Specified Directors</b>					
Maurie Stang	-	-	-	-	-
Bernard Stang	-	-	-	-	-
Steven Kritzler	-	-	-	-	-
Alex Sava (appointed on 3 October 2016)	-	100,000	-	-	100,000
<b>Specified Executives</b>					
Peter Bush	750,000	-	-	(750,000)	-
Robert Waring	-	50,000	-	-	50,000
	750,000	150,000	-	(750,000)	150,000

#### 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.

# Aeris Environmental Ltd

## AND CONTROLLED ENTITIES DIRECTORS' REPORT

30 JUNE 2018

### REMUNERATION REPORT (AUDITED)

	2018 \$	2017 \$
<b>Regional Healthcare Group Pty Ltd</b>		
The Company and its controlled entities incur expenses for services provided by Regional Healthcare Group Pty Ltd.		
Office and administration expenses	168,378	246,489
Rent	53,645	56,758
Distribution expenses	56,650	43,570
Corporate services	83,500	81,033
Mr M Stang and Mr B Stang are Directors and shareholders of Regional Healthcare Group Pty Ltd.		
<b>Novapharm Research (Australia) Pty Ltd</b>		
The Company and its controlled entities incur expenses for services provided by Novapharm Research (Australia) Pty Ltd.		
Research and development	109,021	304,666
Patent and other expenses	68,476	224,478
Mr M Stang, S Kritzler and B Stang are Directors and shareholders of Novapharm Research (Australia) Pty Ltd.		
<b>Ramlist Pty Ltd</b>		
The Company and its controlled entities incur expenses for rent and utility outgoings to Ramlist Pty Ltd.	50,556	39,853
Mr M Stang and Mr B Stang are Directors and shareholders of Ramlist Pty Ltd.		
<b>Ensol Systems Pty Ltd</b>		
The Company and its controlled entities incur expenses for marketing and other operational services to Ensol Systems Pty Ltd.	5,633	86,500
Mr M Stang is a shareholder of Ensol Systems Pty Ltd.		
<b>Bright Accountants</b>		
The Company and its controlled entities incur expenses for accounting services to Bright Accountants.	56,884	52,770
Mr P Bush is a related party to Bright Accountants.		
<b>Loans from Directors (Messrs M Stang, B Stang and S Kritzler)</b>		
Interest on loans	15,748	27,630
Loan borrowings	1,200,000	-
Loan repayments	-	1,015,000
Mr M Stang, S Kritzler and B Stang are Non-Executive Directors and shareholders of the Company.		
These are unsecured loans with interest charged at ATO benchmark rates.		
<b>Outstanding balances payable from purchases of services</b>		
Regional Healthcare Group Pty Ltd	171,352	26,487
Novapharm Research (Australia) Pty Ltd	179,439	119,538
Ramlist Pty Ltd	26,067	2,989
Bright Accountants	10,305	4,500
Ensol Systems	84,136	84,165
<i>Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash.</i>		
<b>Outstanding loan balances</b>		
Directors' loans	1,200,000	-
<i>Interest is charged on these loans at ATO benchmark rates</i>		

**Aeris Environmental Ltd**  
AND CONTROLLED ENTITIES  
**DIRECTORS' REPORT**  
30 JUNE 2018

**REMUNERATION REPORT (AUDITED)**

Details of Directors' and Executive officers' remuneration for the year ended 30 June 2018

	Short term benefits			Post employment benefits	Other long-term benefits	Equity based benefits		Total	Performance Related
	Salary and Director's Fees	STI Cash bonus	Non-monetary benefits	Superannuation		Shares	Options and rights (Note (ii))		
	\$	\$	\$	\$		\$	\$	\$	%
<b>Non-Executive Directors</b>									
Maurie Stang	-	-	-	-	-	-	-	-	0.0%
Bernard Stang	-	-	-	-	-	-	-	-	0.0%
Steven Kritzer	-	-	-	-	-	-	-	-	0.0%
Alex Sava	69,589	-	-	-	-	-	9,410	78,999	0.0%
<b>Total Non-Executive Directors</b>	69,589	-	-	-	-	-	9,410	78,999	
<b>Executive Directors</b>	-	-	-	-	-	-	-	-	0.0%
<b>Total Directors</b>	69,589	-	-	-	-	-	9,410	78,999	
<b>Executives (Note (i))</b>									
Peter Bush	240,175	-	-	22,817	-	-	12,729	275,721	0.0%
Robert Waring	71,781	-	-	-	-	-	4,713	76,494	0.0%
<b>Total</b>	381,545	-	-	22,817	-	-	26,852	431,214	

# Aeris Environmental Ltd

AND CONTROLLED ENTITIES

## DIRECTORS' REPORT

30 JUNE 2018

### REMUNERATION REPORT (AUDITED)

Details of Directors' and Executive Officers' remuneration for the year ended 30 June 2017

	Short term benefits			Post employment benefits	Other long-term benefits	Equity based benefits		Total	Performance Related
	Salary and Directors' Fees	STI cash bonus	Non-monetary benefits	Superannuation		Shares	Options and rights (Note (ii))		
	\$	\$	\$	\$	\$	\$	\$	\$	%
<b>Consolidated</b>									
<b>Non-Executive Directors</b>									
Maurie Stang	-	-	-	-	-	-	-	-	0.0%
Bernard Stang	-	-	-	-	-	-	-	-	0.0%
Steven Kritzer	-	-	-	-	-	-	-	-	0.0%
Alex Sava	-	-	-	-	-	-	4,705	4,705	0.0%
<i>(appointed on 3 October 2016)</i>									
<b>Total Non-Executive Directors</b>	-	-	-	-	-	-	4,705	4,705	
<b>Executive Directors</b>	-	-	-	-	-	-	-	-	0.0%
<b>Total Directors</b>	-	-	-	-	-	-	4,705	4,705	
<b>Executives (Note (i))</b>									
Peter Bush	211,711	65,043	-	26,292	-	-	-	303,046	21.5%
Robert Waring	71,994	-	-	-	-	-	2,357	74,351	0.0%
<b>Total</b>	283,705	65,043	-	26,292	-	-	7,062	382,102	

#### 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
08-Jan-15	31-Jul-16	\$0.0031	\$0.31	\$0.28	5.7%	3.00%
23-Dec-16	14-Oct-21	\$0.2823	\$0.42	\$0.37	108.3%	2.34%
23-Dec-16	23-Oct-21	\$0.2828	\$0.42	\$0.37	108.3%	2.34%

The following factors and assumptions were used in determining the fair value of performance shares on issue date.

Grant Date	Vesting date	Price of shares on grant date	Exercise price
30-May-18	11-Apr-19	\$0.1650	Not applicable
30-May-18	11-Apr-20	\$0.1650	Not applicable
30-May-18	11-Apr-21	\$0.1650	Not applicable

# Aeris Environmental Ltd

## AND CONTROLLED ENTITIES DIRECTORS' REPORT

30 JUNE 2018

### REMUNERATION REPORT (AUDITED)

#### Employment contracts

Chief Executive Officer (CEO):

The following sets out the key terms of the employment for the CEO, Peter Bush

Contract term:	Continuous employment until notice is given by either party
Fixed remuneration:	\$262,992 This is reviewed annually.
Notice period:	To terminate his employment, Mr Bush is required to provide Aeris with 3 months written notice. Aeris must provide 3 months written notice.
Resignation or termination:	On resignation, unless the Board determines otherwise: All unvested short term or long term benefits are forfeited. All vested but unexercised benefits are forfeited after 90 days following cessation of employment.
Statutory entitlements:	Annual leave applies in all cases of separation. Long Service applies unless Mr Bush's service is under 10 years and he is dismissed for misconduct.
Termination for serious misconduct:	Aeris may immediately terminate employment at any time in the case of serious misconduct and Mr Bush will only be entitled to payment of fixed remuneration until the termination date. Such termination will result in all unvested benefits being forfeited. Treatment of any vested but unexercised benefits will be at the discretion of the Board.
Post-Termination Restraint of Trade:	For a period of 6 months or, if that period is unenforceable, 3 months after the termination of employment, Mr Bush must not, in the area of Australia or, if that area is unenforceable, New South Wales: (i) solicit, canvass, approach or accept any approach from any person who was at any time during his last 12 months with the Company a client of the Company in that part or parts of the business carried on by the Company in which he was employed with a view to obtaining the custom of that person in a business that is the same or similar to the business conducted by the Company; or (ii) interfere with the relationship between the Company and its customers, employees or suppliers; or (iii) induce or assist in the inducement of any employee of the Company to leave their employment.

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 26 to the financial statements.

#### Link between remuneration and performance and statutory performance indicators

The table below shows measures of the Group's financial performance over the last five years as required by the *Corporations Act 2001*. However, these are not necessarily consistent with the measures used in determining the variable amounts of remuneration to be awarded to KMP. As a consequence, there may not always be a direct correlation between the statutory key performance measures and the variable remuneration awarded.

	2018	2017	2016	2015	2014
Loss for the year attributable to owners of Aeris Environmental Ltd	-3,230,023	-3,747,555	-2,062,727	-2,016,912	-1,067,893
Basic loss per share (cents per share)	-2.05	-2.40	-1.35	-1.55	-0.91
Dividend payments	-	-	-	-	-
Increase/(decrease) in share price (%)	-50.00%	-33.33%	-6.67%	309.09%	-31.25%
Total KMP remuneration as percentage of loss for the year (%)	-13.35%	-10.20%	-13.00%	-5.01%	-3.63%

The Group's sales revenue in the 2018 financial year recorded an increase by 0.2% with a marginal reduction in gross profit by 3%.

The Company is also in discussions with management and remuneration consultants to structure and align KMP remuneration with strategic business objectives, with the aim of creating shareholder wealth.

#### Share options

1,473,537 options and rights to take up ordinary shares in Aeris Environmental Ltd that were issued to KMP remain unexercised at 30 June 2018 (2017: 150,000 options).

The following options were issued to KMP during the financial year:

	Number of options and rights	
	2018	2017
Peter Bush	1,323,537	-
Alex Sava	-	100,000
Robert Waring	-	50,000

There were no options issued to KMP that expired or were forfeited during the years 2018 and 2017.

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.

Following the first strike at the 2017 Annual General Meeting, when a Company's remuneration report received a 'no' vote of more than 25% of the votes cast, the Company met with the two shareholders who voted against the resolution. Whilst it was agreed that the 'no' vote was not specially targeted at Aeris' Directors or other KMP Remuneration, the shareholder concerns were noted.

Signed in accordance with a resolution of the Directors made pursuant to section 298(2) of the *Corporations Act 2001*.

On behalf of the Directors



**M STANG**  
Director

Sydney, 28 September 2018

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

**To the Directors of Aeris Environmental Ltd**

As auditor for the audit of Aeris Environmental Ltd for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Aeris Environmental Ltd and the entities it controlled during the year.



**Franco Giannuzzi**  
Partner  
Sydney  
28 September 2018



**UHY Haines Norton**  
Chartered Accountants



# Aeris Environmental Ltd

AND CONTROLLED ENTITIES

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

	Note	2018 \$	2017 \$
<b>Continuing Operations</b>			
Revenue	4	2,751,960	2,746,816
Cost of sales		(1,091,758)	(1,038,362)
Gross profit		1,660,202	1,708,454
Other revenue	4	18,937	135,443
Administration expenses		(1,050,558)	(1,070,426)
Depreciation and amortisation expense	5	(67,190)	(58,294)
Distribution expense		(241,565)	(184,451)
Employee benefits expense	5	(2,272,698)	(2,238,206)
Financial expenses	5	(46,902)	(37,848)
Impairment of receivables	5	(108,284)	(674,624)
Research and development and patent expense	5	(503,876)	(508,725)
Occupancy expenses	5	(276,027)	(248,173)
Sales, Marketing and Travel expenses		(1,010,502)	(1,000,416)
<b>Loss before income tax from continuing operations</b>		(3,898,463)	(4,177,265)
Income tax benefit	6a	667,578	425,000
<b>Net loss for the year</b>		(3,230,885)	(3,752,265)
<b>Other Comprehensive Income</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Foreign currency translation differences		2,331	30,688
<b>Total comprehensive loss for the year, net of tax</b>		(3,228,554)	(3,721,577)
<b>Loss for the year attributable to:</b>			
Owners of Aeris Environmental Ltd		(3,230,023)	(3,747,555)
Non-controlling interest	21	(862)	(4,710)
		(3,230,885)	(3,752,265)
<b>Total comprehensive loss for the year attributable to:</b>			
Owners of Aeris Environmental Ltd		(3,227,692)	(3,716,867)
Non-controlling interest	21	(862)	(4,710)
		(3,228,554)	(3,721,577)
<b>Earnings per share</b>	7		
Basic loss per share (cents per share)			
Loss from continuing operations		(2.05)	(2.40)
Diluted loss per share (cents per share)			
Loss from continuing operations		(2.05)	(2.40)

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

# Aeris Environmental Ltd

AND CONTROLLED ENTITIES

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Note	2018 \$	2017 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	9	157,643	1,519,941
Trade and other receivables	10A	1,819,524	1,363,571
Inventories	11	318,196	256,724
Other current assets	12	139,933	116,059
<b>TOTAL CURRENT ASSETS</b>		<u>2,435,296</u>	<u>3,256,295</u>
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables	10B	311,513	434,663
Property, plant and equipment	13	115,324	156,190
<b>TOTAL NON-CURRENT ASSETS</b>		<u>426,837</u>	<u>590,853</u>
<b>TOTAL ASSETS</b>		<u>2,862,133</u>	<u>3,847,148</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	14A	1,281,441	496,795
Provisions	14B	273,701	219,383
<b>TOTAL CURRENT LIABILITIES</b>		<u>1,555,142</u>	<u>716,178</u>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	15	1,200,000	-
Provisions	16	25,770	19,159
<b>TOTAL NON-CURRENT LIABILITIES</b>		<u>1,225,770</u>	<u>19,159</u>
<b>TOTAL LIABILITIES</b>		<u>2,780,912</u>	<u>735,337</u>
<b>NET ASSETS</b>		<u>81,221</u>	<u>3,111,811</u>
<b>EQUITY</b>			
Contributed equity	17	41,313,362	41,312,862
Reserves	19	1,554,309	1,354,514
Accumulated losses	20	(42,790,135)	(39,560,112)
Non-controlling interest	21	3,685	4,547
<b>TOTAL EQUITY</b>		<u>81,221</u>	<u>3,111,811</u>

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

# Aeris Environmental Ltd

AND CONTROLLED ENTITIES

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

	Equity	Reserves	Accumulated losses	Non-controlling interest	Total attributable to equity holders of the entity
	\$	\$	\$	\$	\$
<b>Balance at 1 July 2016</b>	<b>40,100,112</b>	<b>1,180,709</b>	<b>(35,812,557)</b>	<b>9,257</b>	<b>5,477,521</b>
Loss for the year	-	-	(3,747,555)	(4,710)	(3,752,265)
Other comprehensive income / (loss)	-	30,688	-	-	30,688
Total comprehensive loss for the year	-	30,688	(3,747,555)	(4,710)	(3,721,577)
<i>Transactions with owners in their capacity as owners:</i>					
Shares issued during year	1,212,750	-	-	-	1,212,750
Value of employee services under ESOP	-	143,117	-	-	143,117
<b>Balance at 30 June 2017</b>	<b>41,312,862</b>	<b>1,354,514</b>	<b>(39,560,112)</b>	<b>4,547</b>	<b>3,111,811</b>
<b>Balance at 1 July 2017</b>	<b>41,312,862</b>	<b>1,354,514</b>	<b>(39,560,112)</b>	<b>4,547</b>	<b>3,111,811</b>
Loss for the year	-	-	(3,230,023)	(862)	(3,230,885)
Other comprehensive income / (loss)	-	2,331	-	-	2,331
Total comprehensive loss for the year	-	2,331	(3,230,023)	(862)	(3,228,554)
<i>Transactions with owners in their capacity as owners:</i>					
Shares issued during year	500	-	-	-	500
Value of employee services under ESOP	-	197,464	-	-	197,464
<b>Balance at 30 June 2018</b>	<b>41,313,362</b>	<b>1,554,309</b>	<b>(42,790,135)</b>	<b>3,685</b>	<b>81,221</b>

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

# Aeris Environmental Ltd

AND CONTROLLED ENTITIES

## CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

	Note	2018 \$	2017 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers (inclusive of GST)		2,723,493	1,810,167
Payments to suppliers and employees (inclusive of GST)		(5,644,375)	(6,317,344)
R&D tax offset rebate received		425,298	351,960
Interest and other income received		18,937	135,443
Interest paid		(61,656)	(38,307)
Net cash used in operating activities	33 (b)	(2,538,303)	(4,058,081)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(26,326)	(65,080)
Net cash used in investing activities		(26,326)	(65,080)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from shares issue		-	196,750
Loan borrowings		1,200,000	-
Net cash provided by financing activities		1,200,000	196,750
NET DECREASE IN CASH AND CASH EQUIVALENTS		(1,364,629)	(3,926,411)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR		1,519,941	5,415,664
Effects of exchange rate changes on cash and cash equivalents		2,331	30,688
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR</b>	9	<u>157,643</u>	<u>1,519,941</u>

\*During the 2017 financial year Directors' loan amounting to \$1,015,000 was repaid by issuing 2,416,665 company's ordinary shares. This transaction did not have any effect on the group's cash flow.

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

# **Aeris Environmental Ltd**

AND CONTROLLED ENTITIES

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

### NOTE

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# Aeris Environmental Ltd

AND CONTROLLED ENTITIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Corporate information

The financial report of Aeris Environmental Ltd (the Group) for the year ended 30 June 2018 was authorised for issue in accordance with a resolution of the Directors on 27 September 2018.

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 Directors' 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 \$3,230,885 for the year ended 30 June 2018 (2017: \$3,752,265) and has net assets of \$81,221 as at 30 June 2018 (2017: \$3,111,811). The operating cash burn rate for the financial year ended 30 June 2018 was \$2,538,303 (2017: \$4,058,081). The cash balance as at 30 June 2018 was \$157,643 (2017: \$1,519,941). If the cash burn rate for the financial year ended 30 June 2018 continues during the year ending 30 June 2019, which it is not budgeted to do, there may be an uncertainty in relation to the Group's ability to continue as a going concern.

Certain of the Group's Non-Executive Directors have pledged to provide financial support to the Group for an amount of up to \$1,500,000. The amount drawn down from this facility as at 30 June 2018 was \$1,200,000 and \$300,000 remains available to the Group.

In July 2018, Aeris received a cash-back of \$667,000 from the Australian Taxation Office (ATO) for its research and development (R&D) activities for the financial year ended 30 June 2017 and the 2018 R&D ATO cash-back of approximately \$450,000 is expected to be received in the December 2018 quarter.

Implementation of product marketing measures are expected to improve the cash burn rate significantly. The Directors have an expectation that the sum of its activities will result in a positive cash position during the next 12 months ending 30 June 2019. The Group is currently assessing several options available for further capital resources to underpin its growth requirements. The Group has been able to demonstrate in previous years that they have been successful in raising capital when needed. In June 2015 \$5 million was raised, before the costs of raising. The Directors remain confident that this can again be done when and if required to support the Group's continuing activities.

Directors are of the opinion that the Group will be successful in implementing these initiatives and, accordingly, have prepared the financial report on a going concern basis. Notwithstanding this belief, there is a risk that the Group may not be successful in implementing these initiatives or the implementation of alternative options which may be available to the Group. As a result of these matters, there is a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

#### 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.

##### *AASB 9 Financial Instruments*

Simplifies the model for classifying and recognising financial instruments and aligns hedge accounting more closely with common risk management practises. Changes in own credit risk in respect of liabilities designated at fair value through profit or loss shall now be presented within OCI; this change can be adopted early without adopting AASB 9.

AASB 9's new impairment model is a move away from AASB 139's incurred credit loss approach to an expected credit loss model. Earlier recognition of impairment is likely to result and for entities with significant lending activities, an overhaul of related systems and processes will be needed.

##### *AASB 15 Revenue from contracts with customers*

The AASB has issued a new standard for revenue recognition. This will replace AASB 118, which covers contracts for goods and services, and AASB 111, which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risk and rewards.

##### *AASB 16 Leases*

AASB 16 will primarily affect the accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and the financial liability to pay rentals for almost all lease contracts. The accounting by lessors, however, will not significantly change.

##### *AASB 2016-5 Classification and measurement of share-based payment transactions*

Amendments were made to AASB 2 *Share-based payment*, which clarify how to account for cash-settled share-based payments with performance conditions, modifications that change a cash-settled arrangement to an equity-settled arrangement, and equity-settled awards that include a 'net settlement' feature which requires employers to withhold amounts to settle the employee's tax obligations.

The adoption of the above standards did not have any material impact on the group.

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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, investments in money market instruments and short-term deposits with a maturity of three months or less, net of outstanding bank overdrafts.

**(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

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(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 25.

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.



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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(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.

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(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 22. 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

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.

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(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 2018 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.

Revenue from services

Revenue from consultancy and engineering services is recognised by reference to the stage of completion. Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. When the contract outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

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.

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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. Any transaction costs associated with the issuing of shares are deducted from share capital.

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 60 days.

The collectability 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 32.

**(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.

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**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 or liabilities, 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 \$1,200,000 as at 30 June 2018, which is the loan from Directors. Interest is charged on this loan at ATO benchmark rates.

**(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 JUDGMENTS**

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) 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.

**(b) 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 25. 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.

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**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)**

(c) *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.

<b>4. REVENUE</b>	<b>2018</b>	<b>2017</b>
<i>Revenue</i>	<b>\$</b>	<b>\$</b>
Revenue from sales	2,007,944	1,564,323
Revenue from services	<u>744,016</u>	<u>1,182,493</u>
	<u>2,751,960</u>	<u>2,746,816</u>
<i>Other revenue</i>		
Interest - other entities	13,348	92,790
Miscellaneous	<u>5,589</u>	<u>42,653</u>
	<u>18,937</u>	<u>135,443</u>

**5. EXPENSES**

Loss before income tax includes the following items of expense:

*Depreciation and amortisation expense*

Depreciation of leasehold assets	6,332	6,332
Depreciation of plant and equipment	<u>60,858</u>	<u>51,961</u>
Total depreciation and amortisation expense	<u>67,190</u>	<u>58,294</u>

*Employee benefit expenses*

Base salary and fees	1,862,285	1,728,921
Superannuation & statutory oncosts	201,028	349,709
Share based payment expense (Note 25(a) )	197,464	143,117
Other employee expenses	<u>11,921</u>	<u>16,459</u>
Total employee benefit expenses	<u>2,272,698</u>	<u>2,238,206</u>

*Financial expenses*

Interest and bank fees	<u>46,902</u>	<u>37,848</u>
	<u>46,902</u>	<u>37,848</u>

*Other expenses*

Impairment of receivables	108,284	674,624
Rental & occupancy expenses	276,027	248,173
Research and development and patent expenses	<u>503,876</u>	<u>508,725</u>

**6. INCOME TAX**

(a)

**Income tax benefit**

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

Loss for year	<u>(3,898,463)</u>	<u>(4,177,265)</u>
Income tax benefit calculated at 30%	(1,169,539)	(1,253,180)
Temporary differences and tax losses not recognised	442,721	785,245
- Non deductible expenses		
- Share based payments	59,239	42,935
Income tax benefit attributable to loss	<u>(667,578)</u>	<u>(425,000)</u>

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**6. INCOME TAX (CONTINUED)**

<b>(b)</b>	<b>Deferred tax balances not recognised</b>	<b>2018</b>	<b>2017</b>
	Calculated at 30% not brought to account as assets:	<b>\$</b>	<b>\$</b>
	<b>Deferred tax assets</b>		
	<b>Tax losses</b>		
	Revenue tax losses available for offset against future tax income	7,305,778	6,951,832
	<b>Temporary differences</b>		
	Provision for doubtful debts	122,594	84,000
	Provision for employee entitlements	89,841	71,563
	Difference between book and tax values of fixed assets	60,356	48,096
	Accruals	7,200	7,950
		<u>279,991</u>	<u>211,609</u>
	Total deferred tax assets	<u>7,585,769</u>	<u>7,163,441</u>
	Net deferred tax asset not recognised	<u>7,585,769</u>	<u>7,163,441</u>

**(c)**

**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.

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**7. LOSS PER SHARE ATTRIBUTABLE TO THE ORDINARY EQUITY-HOLDERS OF THE COMPANY**

	2018 \$	2017 \$
Basic loss per share (cents per share)	(2.05)	(2.40)
Diluted loss per share (cents per share)	(2.05)	(2.40)
Net loss used to calculate basic EPS	(3,230,023)	(3,747,555)
Net loss used to calculate diluted EPS	(3,230,023)	(3,747,555)
Weighted average number of ordinary shares used to calculate basic EPS	157,750,866	156,329,954
Convertible share options	-	-
Weighted average number of ordinary shares used to calculate diluted EPS	157,750,866	156,329,954

*Options and rights eligible for conversion into ordinary shares in future have an anti-dilutive effect, hence diluted EPS is reported same as basic EPS.*

**8. AUDITORS' REMUNERATION**

Remuneration of UHY Haines Norton for :		
Audit of the annual financial report	26,000	25,000
Review of the half yearly financial report	17,000	12,500
Other services	4,550	4,330
Total auditors remuneration	47,550	41,830

**9. CASH AND CASH EQUIVALENTS**

<b>Cash and Cash Equivalents</b>		
Cash at bank and on hand	152,070	514,514
Term Deposits	-	1,000,000
Deposits on call	5,573	5,427
	157,643	1,519,941

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

**10. CURRENT TRADE AND OTHER RECEIVABLES**

**A Current trade and other receivables**

Trade receivables	1,560,891	1,247,126
Less provision for doubtful debts	(408,647)	(308,555)
R&D tax offset rebate receivable	667,280	425,000
	1,819,524	1,363,571

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

*Impairment of receivables*

Less than 6 months overdue	-	-
More than 6 months overdue	408,647	308,555

Movements in provision for impairment of receivables

Opening balance	308,555	280,358
Additional provisions recognised	100,092	30,000
Foreign exchange difference	-	(1,803)
Closing balance	408,647	308,555

Amounts recognised in profit or loss

During the year, the following losses were recognised in profit or loss in relation to impaired receivables.

Impairment losses		
Individually impaired receivables	(8,192)	(644,624)
Movement in provision for impairment	(100,092)	(30,000)
	(108,284)	(674,624)

**B Non-current trade and other receivables**

Trade Receivables	311,513	434,663
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The carrying amounts of non-current trade and other receivables represent amount due from customers for SmartENERGY® projects completed during 2017 financial year which are receivable over 60 months and accounted at fair values.

The fair values were calculated based on cash flows discounted using rate appropriate to credit rating of customers.

**11. INVENTORIES**

Inventories - at cost	318,196	256,724
	318,196	256,724

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

**12. OTHER CURRENT ASSETS**

Prepayments	83,932	71,144
Advance payment to suppliers	39,578	-
Accrued income	4,606	3,829
Deposits and bonds	11,817	41,086
	139,933	116,059

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



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**13. NON-CURRENT ASSETS**

**Carrying Values**

	Cost	Accumulated depreciation / impairment	Net carrying value
	\$	\$	\$
<b>2018</b>			
<b>Property, plant and equipment</b>			
R & D equipment	25,011	(25,011)	-
Computer equipment	208,784	(179,247)	29,537
Field equipment	58,747	(58,747)	-
Leasehold improvements	130,228	(110,251)	19,977
Office furniture	175,566	(123,411)	52,155
Plant and equipment	111,585	(97,930)	13,655
	<u>709,921</u>	<u>(594,597)</u>	<u>115,324</u>
<b>2017</b>			
<b>Property, plant and equipment</b>			
R & D equipment	25,011	(24,824)	187
Computer equipment	187,964	(151,340)	36,624
Field equipment	58,747	(58,747)	-
Leasehold improvements	130,228	(103,919)	26,309
Office furniture	175,566	(101,237)	74,329
Plant and equipment	106,079	(87,338)	18,741
	<u>683,595</u>	<u>(527,405)</u>	<u>156,190</u>

**Reconciliations**

	Opening net carrying value	Additions	Disposals	Depreciation / Impairment	Exchange movements	Closing net carrying value
	\$	\$	\$	\$	\$	\$
<b>2018</b>						
R & D equipment	187	-	-	(187)	-	-
Computer equipment	36,624	20,820	-	(27,907)	-	29,537
Leasehold improvements	26,309	-	-	(6,332)	-	19,977
Office furniture	74,329	-	-	(22,174)	-	52,155
Plant and equipment	18,741	5,504	-	(10,590)	-	13,655
	<u>156,190</u>	<u>26,324</u>	<u>-</u>	<u>(67,190)</u>	<u>-</u>	<u>115,324</u>
<b>2017</b>						
R & D equipment	1,247	-	-	(1,060)	-	187
Computer equipment	31,680	28,728	-	(23,784)	-	36,624
Leasehold improvements	32,641	-	-	(6,332)	-	26,309
Office furniture	84,961	10,475	-	(21,108)	-	74,329
Plant and equipment	752	24,000	-	(6,010)	-	18,741
	<u>151,281</u>	<u>63,203</u>	<u>-</u>	<u>(58,294)</u>	<u>-</u>	<u>156,190</u>

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**14. CURRENT TRADE AND OTHER PAYABLES AND PROVISIONS**

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>A Unsecured trade and other payables</b>		
Trade creditors	964,562	379,506
Other payables and accruals	281,065	103,816
GST and PAYG payable	35,814	13,473
	<u>1,281,441</u>	<u>496,795</u>
<b>B Provisions</b>		
Annual leave	250,930	199,103
Long service leave	22,771	20,280
	<u>273,701</u>	<u>219,383</u>

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

**15. NON-CURRENT BORROWINGS**

Unsecured loans from Directors	1,200,000	-
	<u>1,200,000</u>	<u>-</u>

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

Interest on loans from Directors and related entities is charged at ATO benchmark rates (2018: 5.3% and 2017: 5.4%)

**16. NON-CURRENT PROVISIONS**

Long service leave	25,770	19,159
	<u>25,770</u>	<u>19,159</u>

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

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**17. CONTRIBUTED EQUITY**

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>Share capital</b>		
157,745,387 fully paid ordinary shares - no par value (2017: 157,745,387)	41,208,486	41,207,986
Fully paid ordinary shares carry one vote per share and carry the right to dividends.		
<b>Other contributed equity</b>		
Consideration for issue of share options	104,876	104,876
	<b>41,313,362</b>	<b>41,312,862</b>

<b>Movement in ordinary share capital of Aeris Environmental Ltd</b>	<b>2018</b>	<b>2018</b>	<b>2017</b>	<b>2017</b>
	<b>Number of shares</b>	<b>\$</b>	<b>Number of shares</b>	<b>\$</b>
Balance at beginning of year	157,745,387	41,207,986	154,428,722	39,995,236
Shares issued during year				
Shares issued to Directors towards repayment of their loan	-	-	2,416,665	1,015,000
Shares issued to KMP on exercise of options	-	-	750,000	196,250
Shares issued to consultants on exercise of options	50,000	500	150,000	1,500
Balance at end of year	<b>157,795,387</b>	<b>41,208,486</b>	<b>157,745,387</b>	<b>41,207,986</b>

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

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**18. OPTIONS**

	Grant Date	Expiry Date	Exercise Price	Number on issue 30 June 2017	Granted during year	Expired or forfeited	Exercised during year	Number on issue 30 June 2018
<b>2018</b>								
<b>Unlisted</b>								
**	31-Jul-14	31-Jul-19	0.20	500,000	-	-	-	500,000
*	23-Dec-16	14-Oct-21	0.42	100,000	-	-	-	100,000
*	23-Dec-16	23-Oct-21	0.42	945,000	-	(200,000)	-	745,000
*	23-Dec-16	01-Aug-20	0.01	300,000	-	-	(50,000)	250,000
*	30-May-18	01-Mar-21	0.01	-	100,000	-	-	100,000
Total options on issue				1,845,000	100,000	(200,000)	(50,000)	1,695,000

	Grant Date	Expiry Date	Exercise Price	Number on issue 30 June 2016	Granted during year	Expired or forfeited	Exercised during year	Number on issue 30 June 2017
<b>2017</b>								
<b>Unlisted</b>								
*	17-Nov-11	17-Nov-16	0.17	250,000	-	-	(250,000)	-
*	26-Jul-12	23-Feb-17	0.22	20,000	-	(20,000)	-	-
**	31-Jul-14	31-Jul-19	0.20	500,000	-	-	-	500,000
*	08-Jan-15	31-Jul-16	0.31	500,000	-	-	(500,000)	-
*	23-Dec-16	14-Oct-21	0.42	-	100,000	-	-	100,000
*	23-Dec-16	23-Oct-21	0.42	-	945,000	-	-	945,000
*	23-Dec-16	01-Aug-20	0.42	-	450,000	-	(150,000)	300,000
Total options on issue				1,270,000	1,495,000	(20,000)	(900,000)	1,845,000

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.

- \*\* Share options issued as consideration for business combinations
- \* 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

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**19. RESERVES**

	2018 \$	2017 \$
Foreign currency translation reserve	(49,547)	(51,878)
Share based payments reserve	1,603,856	1,406,392
	<u>1,554,309</u>	<u>1,354,514</u>

**Foreign currency translation reserve**

Balance at beginning of financial year	(51,878)	(82,566)
Foreign exchange translation difference	2,331	30,688
Balance at end of financial year	<u>(49,547)</u>	<u>(51,878)</u>

*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	1,406,392	1,263,275
Share based payments during the year allocated to:		
Employees and consultant	170,612	136,055
Key Management Personnel	26,852	7,062
Balance at end of financial year	<u>1,603,856</u>	<u>1,406,392</u>

*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 and issued in consideration for business combinations.

**20. ACCUMULATED LOSSES**

Balance at beginning of financial year	(39,560,112)	(35,812,557)
Net loss for year	(3,230,023)	(3,747,555)
Balance at end of financial year	<u>(42,790,135)</u>	<u>(39,560,112)</u>

**21. NON-CONTROLLING INTERESTS**

Balance at beginning of financial year	4,547	9,257
Net loss for year	(862)	(4,710)
Balance at end of financial year	<u>3,685</u>	<u>4,547</u>

**22. PARTICULARS RELATING TO CONTROLLED ENTITIES**

Name of entity	Country of incorporation	Ownership interest 2018 %	Ownership interest 2017 %
<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
Aeris Cleantech Pte Ltd	Singapore	75	75
Aeris Cleantech Europe Ltd	Malta	100	100

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**23. COMMITMENTS FOR EXPENDITURE**

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>Lease commitments</b>		
<b><u>Operating leases</u></b>		
Commitments on operating leases that relate to below office facilities:		
Thailand operations branch - up to 1 year	4,284	3,768
Registered office in Sydney - up to 1 year	-	53,645
Branch office in Brisbane - up to 1 year	107,076	106,240
- 1 to 3 years	214,152	212,480
- 3 to 5 years	71,384	172,312
	<u>396,896</u>	<u>548,445</u>

**24. KEY MANAGEMENT PERSONNEL DISCLOSURES**

- (a) The Directors of Aeris Environmental Ltd during the year were:

Maurie Stang  
Bernard Stang  
Steven Kritzler  
Alex Sava  
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 below:

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	381,545	348,748
Post-employment benefits	22,817	26,292
Share-based payments	26,852	7,062
	<u>431,214</u>	<u>382,102</u>

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

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**25. 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:

	2018 \$	2017 \$
<b>Employee Share Option Plan</b>		
Employees and consultant	170,612	136,055
Key Management Personnel	26,852	7,062
Total amount arising from share-based payment transactions	<u>197,464</u>	<u>143,117</u>

**(b) Details of share-based payment plan**

The share-based payment plan is described in the remuneration report in Directors' Report. There have been no cancellations or modifications to the plan during 2017 and 2018.

**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 fair value of performance rights granted is based on the market price of shares at the date of issue.

	Options		Rights	
	2018	2017	2018	2017
Weighted average remaining contractual life	2.44 years	3.51 years	1.78 years	-
Range of exercise prices	\$0.01 to \$0.42	\$0.20 to \$0.42	-	-
Following options were issued during the year.				
To employees and consultants	100,000	1,345,000	515,500	-
To Key Management Personnel	-	150,000	1,323,537	-
	<u>100,000</u>	<u>1,495,000</u>	<u>1,839,037</u>	<u>-</u>

The following table shows the inputs to the valuation of options and rights granted during 2018 financial year.

	Options	Rights
Value of Underlying Stock	0.170	0.165
Exercise Price	0.010	0.000
Dividend Yield	0.00%	N/A
Volatility (per Year)	12.90%	N/A
Risk free rate	2.50%	N/A
Maturity	1/03/2021	11/04/2021
Pricing Date	30/05/2018	30/05/2018
Value of Option	0.1607	0.1650

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**26. RELATED PARTY DISCLOSURES**

**(a) Parent Entity**

Aeris Environmental Ltd is the parent entity.

**Subsidiaries**

Interests in subsidiaries are set out in note 22.

**(b) Key management personnel**

Disclosures relating to key management personnel are set out in note 24 and the remuneration report in the Directors' Report.

**(c) Transactions with Directors and Director related entities**

Disclosures relating to transactions with Directors and Director related entities are set out in the remuneration report in the Directors' Report.

**27. FINANCIAL INSTRUMENTS DISCLOSURES**

**(a) Capital**

The Group considers its capital to comprise its ordinary share capital and accumulated losses.

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.



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**27. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)**

**(c) Principal financial instruments**

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

cash at bank;  
trade and other receivables;  
deposits and bonds; and  
trade and other payables.  
Borrowings

**(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, cash and term deposits. 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 :

	2018	2017
	\$	\$
<i>Without external credit rating</i>		
Trade receivables	1,463,758	1,373,234
R&D tax offset rebate receivable	667,280	425,000
Deposits and bonds	19,709	48,518
<i>With external credit rating (Moody's)</i>		
Deposits with Bankwest (credit rating Aa2)	1,070	1,000,812
Deposits with Wells Fargo, USA (credit rating Aa1)	20,973	3,440
Deposits with ANZ Bank (credit rating Aa2)	103,560	493,888
	<u>2,276,350</u>	<u>3,344,893</u>

**(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.

**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.

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**27. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)**

**(ii) Liquidity risk (continued)**

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

	Cash flows				
		< 6 mths	6- 12 mths	1-3 years	> 3 years
	\$	\$	\$	\$	\$
<b>Maturity analysis - 2018</b>					
<b>Financial assets</b>					
Cash and cash equivalents	157,643	157,643	-	-	-
Receivables	2,204,739	1,796,823	61,721	246,882	99,313
Security deposits	11,817	-	-	-	11,817
<b>TOTAL</b>	<b>2,374,199</b>	<b>1,954,466</b>	<b>61,721</b>	<b>246,882</b>	<b>111,130</b>
<b>Financial liabilities</b>					
Trade Creditors	964,562	964,562	-	-	-
Other payables and accruals	316,879	316,879	-	-	-
Loans	1,295,400	31,800	63,600	1,200,000	-
<b>TOTAL</b>	<b>2,576,841</b>	<b>1,313,242</b>	<b>63,600</b>	<b>1,200,000</b>	<b>-</b>
<b>NET MATURITY</b>	<b>(202,642)</b>	<b>641,224</b>	<b>(1,879)</b>	<b>(953,118)</b>	<b>111,130</b>
<b>Maturity analysis - 2017</b>					
<b>Financial assets</b>					
Cash and cash equivalents	1,523,770	1,523,770	-	-	-
Receivables	1,877,762	1,346,405	61,720	246,882	222,755
Security deposits	41,086	29,300	-	-	11,786
<b>TOTAL</b>	<b>3,442,618</b>	<b>2,899,476</b>	<b>61,720</b>	<b>246,882</b>	<b>234,541</b>
<b>Financial liabilities</b>					
Trade Creditors	379,506	379,506	-	-	-
Other payables and accruals	117,289	117,289	-	-	-
Loans	-	-	-	-	-
<b>TOTAL</b>	<b>496,795</b>	<b>496,795</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET MATURITY</b>	<b>2,945,823</b>	<b>2,402,679</b>	<b>61,720</b>	<b>246,882</b>	<b>234,541</b>

**Aeris Environmental Ltd**  
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**27. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)**

**(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 :

2018	NOTE	WEIGHTED AVERAGE INTEREST RATES	FLOATING INTEREST RATES	FIXED INTEREST RATES	NON- INTEREST BEARING	TOTAL
<b>Financial assets</b>						
Cash and cash equivalents	9	1.00%	5,573	-	152,070	157,643
Deposits	9	2.20%	-	-	11,817	11,817
Receivables	10	5.50%	-	395,935	1,735,102	2,131,037
Total Assets			<b>5,573</b>	<b>395,935</b>	<b>1,898,989</b>	<b>2,300,497</b>
<b>Financial liabilities</b>						
Trade and other payables	14	0.00%	-	-	1,281,441	1,281,441
Borrowings	15	5.30%	-	1,200,000	-	1,200,000
Total Liabilities			<b>-</b>	<b>1,200,000</b>	<b>1,281,441</b>	<b>2,481,441</b>
<b>Net financial assets</b>			<b>5,573</b>	<b>(804,065)</b>	<b>617,548</b>	<b>(180,944)</b>
<b>2017</b>						
<b>Financial assets</b>						
Cash and cash equivalents	9	1.00%	5,427	-	514,514	519,941
Deposits	9	2.20%	-	1,000,000	41,086	1,041,086
Receivables	10	5.50%	-	612,945	1,185,289	1,798,234
Total Assets			<b>5,427</b>	<b>1,612,945</b>	<b>1,740,889</b>	<b>3,359,261</b>
<b>Financial liabilities</b>						
Trade and other payables	14	0.00%	-	-	496,795	496,795
Total Liabilities			<b>-</b>	<b>-</b>	<b>496,795</b>	<b>496,795</b>
<b>Net financial assets</b>			<b>5,427</b>	<b>1,612,945</b>	<b>1,244,094</b>	<b>2,862,466</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**

2018	Carrying amount	+3% interest rate Profit & Loss	-3% interest rate Profit & Loss
Deposits on call	5,573	167	(167)
	5,573	167	(167)
Tax charge of 30%		(50)	50
Post tax profit increase / (decrease)		117	(117)

**Sensitivity analysis**

2017	Carrying amount	+3% interest rate Profit & Loss	-3% interest rate Profit & Loss
Deposits on call	5,427	163	(163)
	5,427	163	(163)
Tax charge of 30%		(49)	49
Post tax profit increase / (decrease)		115	(115)

**Aeris Environmental Ltd**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**27. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)**

(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:

	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>US\$</b>	<b>US\$</b>	<b>SGD</b>	<b>SGD</b>	<b>Euro</b>	<b>Euro</b>
Cash at bank	15,527	2,644	9,334	9,684	5,000	5,000
Trade and other receivables	18,056	11,672	12,500	12,500	-	-
Trade and other payables	(2,912)	(2,162)	-	-	-	-
Net Exposure	<u>30,671</u>	<u>12,154</u>	<u>21,834</u>	<u>22,184</u>	<u>5,000</u>	<u>5,000</u>

Sensitivity analysis on the foreign currency exposure risk is not disclosed as the foreign currency balances are not material and the impact of any change in exchange rates would be immaterial.

**(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.

**Aeris Environmental Ltd**  
AND CONTROLLED ENTITIES  
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FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

**28. CONTINGENT LIABILITIES**

There are no contingent liabilities of the company or the Group other than commitments disclosed in note 23 (2017: NIL)

**29. 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

**30. SUBSEQUENT EVENTS**

There have been no matters or circumstances, which have arisen since 30 June 2018 that have significantly affected or may significantly affect:

- (a) the operations, in financial years subsequent to 30 June 2018, of the consolidated entity; or
- (b) the results of those operations;
- (c) the state of affairs, in the financial years subsequent to 30 June 2018, of the consolidated entity.

**31. OPERATING SEGMENTS**

*Identification of reportable segments*

From Board of Directors' (Chief Operating Decision Makers' - CODM) perspective, the Group is organised into business units based on its geographical area of operation. The Group has identified two 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 internationally, 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) Australia - Sales and service on account of Australian operations
- (b) International - Sales & service on account of international 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 total revenue) that combined account for 33% of external revenue (2017: Three major customers combined account for 51%).

During the year ended 30 June 2018 the most significant client accounts for approximately 17% (2017: 21%) of the consolidated entity's external revenue through Australian Sales operating segment.

*Operating segment information of the consolidated entity*

	Australia	International	Intersegment eliminations	Consolidated
<b>2018</b>				
	\$	\$	\$	\$
<b>Revenue</b>				
Sales	2,719,850	47,943	(15,833)	2,751,960
Other Income	18,937	-	-	18,937
Total Revenue	2,738,787	47,943	(15,833)	2,770,897
<b>Expenses</b>				
Cost of goods sold	1,089,663	17,930	(15,833)	1,091,760
Operating expenses	5,550,390	27,406	(196)	5,577,600
Total Expenses	6,640,053	45,336	(16,029)	6,669,360
Loss before tax	(3,901,266)	2,607	196	(3,898,463)
<b>2017</b>				
	\$	\$	\$	\$
<b>Revenue</b>				
Sales	2,722,037	35,827	(11,048)	2,746,816
Other Income	135,443	-	-	135,443
Total Revenue	2,857,480	35,827	(11,048)	2,882,259
<b>Expenses</b>				
Cost of goods sold	1,038,388	11,021	(11,047)	1,038,362
Operating expenses	5,993,227	50,878	(22,943)	6,021,162
Total Expenses	7,031,615	61,899	(33,990)	7,059,524
Loss before tax	(4,174,135)	(26,072)	22,942	(4,177,265)

**Aeris Environmental Ltd**  
**AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018**

**31. OPERATING SEGMENTS (CONTINUED)**

Segment assets and liabilities	Assets		Liabilities	
	2018 \$	2017 \$	2018 \$	2017 \$
Australia	2,901,416	3,935,420	4,552,804	2,551,084
International	84,219	59,002	2,019,977	1,926,205
Total	2,985,635	3,994,422	6,572,781	4,477,289
Intersegment elimination	(163,080)	(147,274)	(3,831,447)	(3,741,952)
Consolidated	<u>2,822,555</u>	<u>3,847,148</u>	<u>2,741,334</u>	<u>735,337</u>

**32. INFORMATION RELATING TO AERIS ENVIRONMENTAL LTD ("THE PARENT ENTITY")**

	2018 \$	2017 \$
Current Assets	2,425,961	3,295,751
Total Assets	2,897,838	3,931,642
Current Liabilities	1,507,476	712,367
Total Liabilities	2,733,246	731,526
Issued Capital (net of costs)	41,313,361	41,312,861
Accumulated losses	(42,752,624)	(39,519,136)
Share-based payment reserve	1,603,855	1,406,391
	<u>164,592</u>	<u>3,200,116</u>
Net loss after tax for the period	(3,233,488)	(3,748,943)
Total comprehensive loss for the period	(3,231,157)	(3,718,255)
Contractual Obligations / Commitments (Refer Note 23)	-	-

**Aeris Environmental Ltd**  
**AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018**

**33. 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:

	<b>2018</b>	<b>2017</b>
	\$	\$
Cash at bank and on hand	152,070	514,514
Term Deposits	-	1,000,000
Deposits on call	5,573	5,427
	<u>157,643</u>	<u>1,519,941</u>

**(b) Reconciliation of operating loss after income tax to net cash flows from operating activities**

	<b>2018</b>	<b>2017</b>
	\$	\$
Operating loss after income tax	(3,230,885)	(3,752,265)

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

Depreciation and amortisation	67,190	58,294
Impairment of trade receivables	108,284	674,624
Share based payments	197,964	143,117

**Changes in assets and liabilities**

(Increase) in receivables	(441,087)	(1,280,813)
(Increase) in inventory	(61,472)	(85,790)
Decrease in other assets	15,704	20,915
Increase in trade creditors	545,478	175,055
Increase / (Decrease) in other creditors and accruals	199,592	(124,721)
Increase in employee entitlement expense	60,929	113,503

<b>Net cash used in operating activities</b>	<u>(2,538,303)</u>	<u>(4,058,081)</u>
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# Aeris Environmental Ltd

AND CONTROLLED ENTITIES

## DIRECTORS' DECLARATION

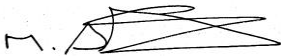
In accordance with a resolution of directors, I state that:

1 In the opinion of the Directors:

- (a) the financial statements and notes, as set out on pages 15 to 45, 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 2018 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 2018.

On behalf of the Board of Directors



**Maurie Stang**  
Director

Sydney, 28 September 2018



## INDEPENDENT AUDITOR'S REPORT

### To the Members of Aeris Environmental Ltd

### Report on the Audit of the Financial Report

#### Qualified Opinion

We have audited the financial report of Aeris Environmental Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, 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, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- i. giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
- ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for qualified opinion

We have not been able to obtain sufficient appropriate audit evidence as to the recoverability of an outstanding receivable of \$334,000 from a customer which is not provided for.

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

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms given to the directors at the time of this auditor's report.

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

#### Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial report, which indicates that the Group incurred a net loss of

\$3,230,885 during the financial year ended 30 June 2018 and, as of that date, the Group's net assets balance was \$81,221. The Group's operating cash burn rate for the financial year ended 30 June 2018 was \$2,538,303. The Group's ability to continue as a going concern is dependent on the ability of the Group to successfully implement various capital raising initiatives. There is a risk that the Group may not be successful in implementing these initiatives or the implementation of alternative options which may be available to the Group. These conditions together with other matters described in Note 1, indicate material uncertainty that may cast doubt on the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### GOING CONCERN

Why a key audit matter	How our audit addressed the risk
<p><b>Risk pervasive to Financial Statements</b></p> <p>As disclosed in Note 1 in the financial report, the Group has prepared the financial report on a going concern basis.</p> <p>The Group's net asset position has changed from \$3,111,811 as at 30 June 2017 to \$81,221 as at 30 June 2018. The Group made a loss of \$3,230,885 for the year ended 30 June 2018 compared to a loss of \$3,752,265 in the corresponding previous year. For the year ended 30 June 2018, the Group had negative operating cash flow of \$2,538,303 million. The cash balance as at 30 June 2018 was \$157,643.</p> <p>The history of loss making operations and negative operating cash flows increases the risk that the company may not be able to continue as a going concern for the next 12 months.</p>	<p>Our audit procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>▶ Analysis of the cash flow projections.</li> <li>▶ Assessing significant non-routine forecast cash inflows and outflows for quantum and timing. We used our knowledge of the Group and its industry to assess the level of the associated uncertainty.</li> <li>▶ Evaluating the Group's going concern disclosures in the financial report by comparing them to our understanding of the matter, the events or conditions incorporated into the cash flow projection assessment, the Group's plans to address those events or conditions, and accounting standards requirements.</li> <li>▶ Discussions with the directors and management regarding their going concern assessment.</li> </ul>



## REVENUE RECOGNITION

### Why a key audit matter

As disclosed in Note 4 in the financial report, the Group recognised revenue of \$2,751,960 for the year ended 30 June 2018 (an increase of \$5,144 from 2017). Revenue was identified as a key audit matter as it is considered to be a key performance indicator to the users of the financial report and because of the extent of judgment involved in the recognition and measurement of revenue.

The company has added a new revenue source – ‘Asset Upgrade Plan’. Under this source the company takes responsibility for delivering energy savings to its clients by providing a complete solution which may involve provision of design, installation, implementation, operation, and measurement and verification services. Such a revenue model requires fulfilment of multiple obligations that makes revenue recognition under such model inherently complex.

### How our audit addressed the risk

Our audit procedures in relation to recognition and measurement of revenue included:

- ▶ Assessing whether the Group’s revenue recognition policies are in compliance with Australian Accounting Standards. We reviewed these policies to determine whether they have been consistently and appropriately applied.
- ▶ Analysing the revenue trends for the year ended 30 June 2018 against our expectations.
- ▶ Reviewing contracts with customers (Asset Upgrade Plan Agreements) to determine if the revenue was recognised in line with the requirements of Australian Accounting Standards.
- ▶ Selecting a sample of transactions throughout the financial year and tracing them to supporting documentation such as contracts, purchase orders, delivery dockets, acceptances from customers and cash receipts.
- ▶ Checking the mathematical accuracy of the calculations of revenues from ‘Asset Upgrade Plans’ that are collected over longer periods including assessing reasonableness of assumptions used in the calculations.

## RECOVERABILITY OF TRADE RECEIVABLES

### Why a key audit matter

Per note 10A in the financial report, gross current trade receivables are \$1,560,891 with \$408,647 aged more than 6 months which were fully provided for. Per note 10B in the financial year non-current trade receivables are \$311,513.

Further, as disclosed in note 10 in the financial report, impairment losses of \$108,284 were recorded during the financial year.

With an increase in revenue, the receivables balance as at 30 June 2018 has also increased. The company has made high dollar value sales to a few new customers acquired during the year.

Some of the Group's customers are located overseas and have considerable lead time when it comes to settling their accounts and obligations.

As the company has no trading history with these new customers, there is an increased credit risk. Further, under the Asset Upgrade Plan contracts, the revenue is collectible over a period of five years, hence the company is exposed to credit risk from such customers over an extended period.

This area is a key audit matter due to the inherent subjectivity that is involved in the Group making judgments in relation to credit risk exposures to determine the recoverability of trade receivables.

### How our audit addressed the risk

Our procedures included, amongst others:

- ▶ Agreeing a sample of receivables balances to supporting documentation.
- ▶ Reviewing and testing aging of trade and other receivables.
- ▶ Assessing the recoverability of a sample of large outstanding trade and other receivables to subsequent cash receipts.
- ▶ Discussions with management regarding their views of the recoverability of amounts outstanding.
- ▶ Challenging management's views of credit risk and noting the historical patterns for long outstanding trade receivables. Reviewing other evidence including customer correspondence, and discussions with management personnel to challenge their knowledge of future conditions that may impact expected customer receipts.
- ▶ Assessing the adequacy of the Group's disclosures in respect of credit risk.



### Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Directors 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 control as the directors determine is 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 preparing the financial report, the directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

### Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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



## Report on the Remuneration Report

### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 8 to 13 of the directors' report for the year ended 30 June 2018.

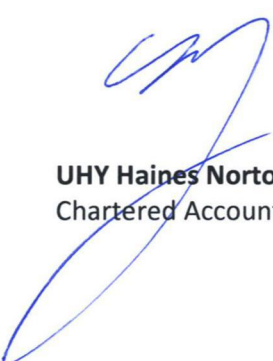
In our opinion, the Remuneration Report of Aeris Environmental Ltd, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

### *Responsibilities*

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.



**Franco Giannuzzi**  
Partner  
Sydney  
28 September 2018



**UHY Haines Norton**  
Chartered Accountants

