

Aeris Environmental



Aeris Environmental Ltd **and controlled entities**

ABN 19 093 977 336

Financial Report **for the year ended 30 June 2014**

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AERIS ENVIRONMENTAL LTD

ACN 086 332 836

AND CONTROLLED ENTITIES

FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2014

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**AERIS ENVIRONMENTAL LTD
AND CONTROLLED ENTITIES**

**DIRECTORS' REPORT
30 JUNE 2014**

The Directors of Aeris Environmental Ltd submit herewith the annual financial report for the financial year ended 30 June 2014. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

The names and positions of the Directors and Company Secretary of the Company during or since the end of the financial year are:

Maurie Stang
Non-Executive Chairman

Mr Stang is the Chief Executive Officer of the Regional Health Care group of companies and of Novapharm Research. He has over 30 years' 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 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: Chairman of Nanosonics Ltd since November 2000.

David Fisher (Director from 2011 until his resignation on 31 July 2014)
Non-Executive Director

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

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

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

Steven Kritzler
Non-Executive Director

Mr Kritzler has an M.Sc from UNSW in the field of Polymer Chemistry and holds a number of international patents. Director since 2002.

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

Director since 2002.

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

Bernard Stang
Non-Executive Director

He graduated with a Bachelor of Architecture and gained significant large-scale project management and building experience prior to co-founding the Regional Health Care group of companies.

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

Mr Stang is CEO of property development investment company Stangcorp Pty Ltd, which has been involved in various retail, commercial and industrial property transactions over the past 29 years.

Director since 2002.

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

Peter Bush, B.Com CA
Chief Executive Officer, Alternate Director for M and B Stang and Chief Financial Officer

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

Mr Bush is the Chief Financial Officer of The Regional Health Care Group (RHCG) and GryphonCapital. RHCG is one of the region's leading diversified healthcare product suppliers, with successful businesses across a range of medical, pharmaceutical, consumer healthcare and research and development sectors. GryphonCapital is an independent merchant bank that facilitates the financing and development of emerging health-care related entities. Mr Bush began his career working for 5 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.

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

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Company Secretary

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

Directors' meetings

The following tables set out the number of directors' meetings and committee meetings held during the financial year and the number of meetings attended by each director (while they were a director).

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

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

Committee membership

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

Audit Committee

Maurie Stang
Bernard Stang (Chairman)

Corporate Governance Committee

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

Remuneration and Nomination Committee

Maurie Stang (Chairman)
David Fisher

Principal activities

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

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

Review of operations

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

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

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Review of operations (continued)

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

Aeris has pursued a dual strategy of cost management leading to an overall lowering of financial loss, whilst applying its constrained resources to future growth drivers. It is noteworthy that these challenging objectives have been met by the team, and that the Company is ready to move into a new and potentially very rewarding phase of its activities focusing on recurrent and annuity revenue. The new SmartENERGY team has already demonstrated significant commercial and technical momentum. SmartENERGY brings a compelling value proposition to its customers in terms of remarkable HVAC energy efficiency (improvements typically being 19-25%), short-term return on investment and a range of convincing systems performance improvements underpinned by outstanding product efficacy, proprietary measurement, verification and reporting.

The research and development (R&D) activities undertaken by Aeris and its associated research group have generated a new stream of innovation in the polymer, coatings, enzyme and smart surfaces technologies. Agreements have been initiated in respect of the Company's new consumer mould product. Material late-stage negotiations are being finalised on a series of OEM coating transactions.

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

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

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

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

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

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Review of operations (continued)

2014 Highlights

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

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

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

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

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Dividends

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

Significant changes in state of affairs

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

Significant events after the balance date

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

In the opinion of the Directors, no other matters or circumstances have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in future financial years.

Likely developments and expected results

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

Environmental regulations

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

Indemnification of officers and auditors

Indemnification

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

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

Insurance premiums

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

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

Proceedings on behalf of the Company

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

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

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Directors' interests

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

Equity holdings transactions

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

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

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

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

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

Loans with specified directors and specified executives

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

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Share options

Options granted to directors and officers of the company

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

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

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

Non-audit services

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

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

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

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

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

Auditors

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

Auditors' Independence Declaration

The Auditors' Declaration of Independence for the year ended 30 June 2014 is attached to this Directors' Report on page 12.

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REMUNERATION REPORT (AUDITED)

Key Management Personnel

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

Directors

Maurie Stang
David Fisher (Until 31 July 2014)
Bernard Stang
Steven Kritzler
Peter Bush (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 reward for performance is competitive and appropriate for the results delivered. Processes have been established to ensure that the levels of compensation and remuneration are sufficient and reasonable, and explicitly linked to the achievement of personal and corporate objectives. The short and long-term incentive plans are specifically aligned to shareholder interests.

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

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

(b) Non-executive directors

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

(c) Executives

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

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

(d) Short-term incentive (STI) scheme

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

(e) Share option based compensation

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

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REMUNERATION REPORT (AUDITED)

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

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

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REMUNERATION REPORT (AUDITED)

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

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

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.

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REMUNERATION REPORT (CONTINUED)

Notes to the tables of details of directors' and executive officers' remuneration (continued)

- (ii) The fair value of the options is calculated at the date of grant using a Black-Scholes model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options allocated to this reporting period. In valuing the options, market conditions have been taken into account in both the current and prior periods. Comparative information was not restated as market conditions were already included in the valuation.

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

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

Employment contracts

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

Share options

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

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

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

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

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

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

On behalf of the Directors



M STANG
Director

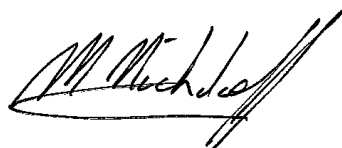
Sydney, 15 September 2014

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

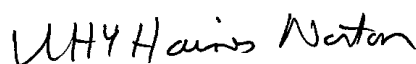
To the Directors of Aeris Environmental Limited

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

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



M. D. Nicholaeff
Partner, Sydney
Dated 15th September 2014



UHY Haines Norton
Chartered Accountants

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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014**

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

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 2014**

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

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

The above statements 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 2014**

	Note	2014 \$	2013 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)		423,147	809,465
Payments to suppliers and employees (inclusive of GST)		(1,796,224)	(1,643,508)
R&D tax offset rebate received		56,168	60,938
Rent received		-	140,636
Interest and other income received		2,377	6,561
Interest paid		(84,902)	(44,312)
Export Market Development Grant		35,294	-
Net cash used in operating activities	35 (c)	(1,364,140)	(670,220)
CASH FLOWS FROM INVESTING ACTIVITIES			
Sales / (purchase) of property, plant and equipment		(3,754)	36,985
Net cash used in investing activities		(3,754)	36,985
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Shares Issue		-	4,650
Repayment of convertible notes		-	(300,000)
Loans		1,350,000	700,000
Net cash provided by financing activities		1,350,000	404,650
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(17,894)	(228,585)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR		180,653	414,442
Effects of exchange rate changes on cash and cash equivalents		(823)	(5,203)
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR		161,937	180,653

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
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**AERIS ENVIRONMENTAL LTD
AND CONTROLLED ENTITIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Corporate information

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

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

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

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

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

The Company's Non-Executive Directors have pledged to provide financial support to the Company for at least next 12 months from the date of signed accounts. Moreover, implementation of cost control and restructuring measures are expected to reduce the cash burn rate significantly.

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

Statement of Compliance

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

New, revised or amending Accounting Standards and Interpretations adopted

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

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

AASB 10 Consolidated Financial Statements

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

AASB 12 Disclosure of Interests in Other Entities

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

AASB 13 Fair Value Measurement

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

AASB 119 Employee Benefits

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

**AERIS ENVIRONMENTAL LTD
AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Significant accounting policies

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

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

(i) Business Combinations

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

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

(ii) Borrowing costs

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

(iii) Cash and cash equivalents

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

(iv) Comparative amounts

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

(v) Depreciation

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

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

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

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

**AERIS ENVIRONMENTAL LTD
AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014**

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 26.

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

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

(viii) Financial assets

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

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

Financial assets at fair value through profit or loss

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

Available-for-sale financial assets

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

**AERIS ENVIRONMENTAL LTD
AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014**

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.

AERIS ENVIRONMENTAL LTD
AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

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 23. The head entity recognises all of the current and deferred tax assets and liabilities of the tax consolidated group (after elimination of intragroup transactions).

(xvi) Inventories

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

(xvii) Leases

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

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

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

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

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

**AERIS ENVIRONMENTAL LTD
AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014**

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

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

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

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

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

(xix) Provisions

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

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

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

(xx) Research and development

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

(xxi) Recoverable amount of non-current assets

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

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

(xxii) Revenue recognition

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

Sale of goods and disposal of assets

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

Government grants

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

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

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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.

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

(xxiv) Borrowings and Convertible notes

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

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

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

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

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

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

(xxv) Trade and other payables

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

(xxvi) Trade and other receivables

Trade and other receivables are recognised initially at fair value and generally due for settlement within 30 days. The collectibility of debts is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is recognised in the income statement as financial expenses.

(xxvii) Parent entity information

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

(xxviii) Fair value measurement

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

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

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

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

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New accounting standards

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

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

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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, the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

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

(d) Liquidity risk

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

3. CRITICAL ACCOUNTING ESTIMATES AND 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) Impairment of non-financial assets other than goodwill

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

(b) Recovery of deferred tax assets

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

(c) Share-based payment transactions

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

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3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(d) *Fair value of financial instruments*

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

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

5. EXPENSES

Loss before income tax includes the following items of expense:

Depreciation and amortisation expense

Amortisation of leasehold plant and equipment	260	1,060
Depreciation of plant and equipment	4,561	11,775
Total depreciation and amortisation expense	<u>4,821</u>	<u>12,835</u>

Employment expenses

Base salary and fees	350,970	395,892
Superannuation & Statutory Oncosts	59,078	66,285
Share based payment expense (Note 26(a))	5,375	25,926
Transfers from employee entitlements provisions	4,255	10,986
Other employee expenses	27,167	27,019
Total employment expense	<u>446,845</u>	<u>526,108</u>

Financial expenses

Foreign exchange loss - realised	-	-
Interest paid	93,721	167,082
Other financial expenses	-	-
	<u>93,721</u>	<u>167,082</u>

Other expenses

Doubtful debts expense	1,181	264,689
Impairment expense	-	-
Rental & Occupancy expenses	89,472	299,231
Research and development expenditure	<u>345,502</u>	<u>313,014</u>

6. INCOME TAX

(a) **Income tax expense**

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

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

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6. INCOME TAX (CONTINUED)

	2014	2013		
	\$	\$		
(b) Adjusted franking account balance	-	-		
(c) Deferred tax balances not recognised				
Calculated at 30% not brought to account as assets:				
	Balance Sheet	Income Statement		
	2014	2013	2014	2013
	\$	\$	\$	\$
Deferred tax liabilities				
Interest receivable	-	-	-	-
Deferred tax assets				
Tax losses				
Revenue tax losses available for offset against future tax income	5,256,665	5,129,460	127,205	309,644
Temporary differences				
Provision for doubtful debts	82,111	7,209	74,903	503
Provision for employee entitlements	16,223	8,347	7,876	(2,219)
Plant and equipment	2,575	3,097	(522)	3,687
Accruals	6,840	6,750	90	-
	<u>107,749</u>	<u>25,402</u>	<u>82,346</u>	<u>1,972</u>
Total deferred tax assets	<u>5,364,414</u>	<u>5,154,862</u>		
Net deferred tax asset / (liability) not recognised	<u>5,364,414</u>	<u>5,154,862</u>	<u>209,552</u>	<u>311,615</u>
(d) Tax consolidation				
(i) Relevance of tax consolidation to the consolidated entity				
Legislation to allow groups comprising a parent entity and its Australian resident wholly-owned entities, to elect to consolidate and be treated as a single entity for income tax purposes ('the tax consolidation system') was substantively enacted on 21 October 2002. The Company, its wholly-owned Australian resident entities and its sister entities within Australia are eligible to consolidate for tax purposes under this legislation and have elected to implement the tax consolidation system from 1 July 2005.				
(ii) Method of measurement of tax amounts				
The tax consolidated group has adopted the "stand-alone" method of measuring current and deferred tax amounts applicable to each company.				
(iii) Tax sharing agreements				
There are no tax sharing or funding agreements in place.				
(iv) Tax consolidation contributions				
There were no amounts recognised for the period as tax consolidations contributions by (or distributions to) equity participants of the tax consolidated group.				

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7. LOSS PER SHARE ATTRIBUTABLE TO THE ORDINARY EQUITY-HOLDERS OF THE COMPANY	2014	2013
Basic and diluted loss per share (cents per share)	<u>(0.91)</u>	<u>(0.99)</u>
Loss attributable to ordinary shareholders of the Company	<u>(1,067,893)</u>	<u>(1,132,159)</u>
Weighted average number of ordinary shares outstanding during the year	<u>117,746,704</u>	<u>114,720,764</u>

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

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

9. CASH AND CASH EQUIVALENTS

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

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

10. CURRENT TRADE AND OTHER RECEIVABLES

Trade receivables	436,081	370,754
Less provision for doubtful debts	(273,299)	(271,946)
Less provision for unrealised foreign exchange gain or loss	(405)	(405)
Other receivables	-	-
Amounts due from wholly owned controlled entities	-	-
Less provision for impairment	-	-
	<u>162,377</u>	<u>98,403</u>

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

Impairment of receivables

Impairment loss recognised in comprehensive loss	<u>-</u>	<u>250,000</u>
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Ageing of impaired receivables are as follows:

Less than 6 months overdue	-	250,000
More than 6 months overdue	273,299	21,946
	<u>273,299</u>	<u>21,946</u>

Movements in provision for impairment of receivables

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

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

11. INVENTORIES

Finished goods - at cost	21,894	11,296
	<u>21,894</u>	<u>11,296</u>

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

12. OTHER CURRENT ASSETS

Prepayments	32,573	38,684
Accrued income	-	-
Deposits and bonds	7,532	7,553
	<u>40,105</u>	<u>46,237</u>

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

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13. PLANT AND EQUIPMENT

(a) Carrying values

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

(b) Reconciliations

	Opening net carrying value	Additions	Disposals	Depreciation	Exchange movements	Closing net carrying value
	\$	\$	\$	\$	\$	\$
2014						
R & D equipment	3,448	3,000	-	(3,015)	-	3,433
Computer equipment	1,726	754	-	(1,263)	-	1,216
Field equipment	0	-	-	-	-	0
Leasehold improvements	260	-	-	(260)	-	0
Office furniture	1,321	-	-	(283)	-	1,038
Vehicles	-	-	-	-	-	-
	6,755	3,754	-	(4,821)	-	5,687
2013						
R & D equipment	9,879	1,600	-	(8,031)	-	3,448
Computer equipment	6,092	-	(550)	(3,809)	(8)	1,726
Field equipment	10,204	-	(10,204)	-	-	0
Leasehold improvements	1,320	-	-	(1,060)	-	260
Office furniture	306	1,415	(292)	(109)	-	1,321
Vehicles	-	-	-	-	-	-
	27,802	3,015	(11,046)	(13,009)	(8)	6,755

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14. CURRENT TRADE AND OTHER PAYABLES

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

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

15. CURRENT INTEREST BEARING PAYABLES

Unsecured loans (payable on demand)	100,000	100,000
	<u>100,000</u>	<u>100,000</u>

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

16. NON-CURRENT TRADE AND OTHER PAYABLES

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

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

17. NON-CURRENT INTEREST BEARING PAYABLES

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

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

There are no fixed repayment schedules for these loans.

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

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18. CONTRIBUTED EQUITY

	2014	2013
	\$	\$
Share capital		
117,746,704 fully paid ordinary shares - no par value (2013: 117,746,704)	28,362,632	28,362,632
Share Application money	-	-
Other contributed equity		
Consideration for issue of share options	104,876	104,876
	<u>28,467,508</u>	<u>28,467,508</u>

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

Movement in ordinary share capital of Aeris Environmental Ltd	2014	2014	2013	2013
	Number of shares	\$	Number of shares	\$
Balance at beginning of year	117,746,704	28,362,632	106,603,980	26,122,982
Shares issued during year				
Share placement				
Other share issues			11,142,724	2,239,650
	117,746,704	28,362,632	117,746,704	28,362,632
Transaction costs relating to share issues	-	-	-	-
Balance at end of year	117,746,704	28,362,632	117,746,704	28,362,632

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

Capital Risk Management

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

Management are constantly adjusting the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

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

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19. OPTIONS

	Grant Date	Expiry Date	Exercise Price	Number on issue 30 June 2013	Granted during year	Lapsed during year	Exercised during year	Number on issue 30 June 2014
2014								
Unlisted								
*	30-Jun-09	29-Jun-14	0.20	410,000	-	(410,000)	-	-
*	07-Mar-11	09-Jan-16	0.25	275,000	-	-	-	275,000
*	31-Mar-11	17-Mar-16	0.15	50,000	-	-	-	50,000
*	17-Nov-11	17-Nov-16	0.17	250,000	-	-	-	250,000
*	26-Jul-12	23-Feb-17	0.22	20,000	-	-	-	20,000
				-				
				1,005,000	-	(410,000)	-	595,000
2013								
Unlisted								
*	20-Jun-08	08-Dec-12	0.30	967,000	-	(967,000)	-	-
*	28-Dec-07	28-Dec-12	0.52	60,000	-	(60,000)	-	-
*	28-Dec-07	28-Dec-12	0.50	150,000	-	(150,000)	-	-
*	30-Jun-09	29-Jun-14	0.20	460,000	-	(50,000)	-	410,000
*	07-Mar-11	09-Jan-16	0.25	275,000	-	-	-	275,000
*	31-Mar-11	17-Mar-16	0.15	50,000	-	-	-	50,000
*	17-Nov-11	17-Nov-16	0.19	375,000	-	(350,000)	(25,000)	-
*	17-Nov-11	17-Nov-16	0.17	250,000	-	-	-	250,000
*	26-Jul-12	23-Feb-17	0.22	-	20,000	-	-	20,000
Total options on issue				2,587,000	20,000	(1,577,000)	(25,000)	1,005,000

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

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

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20. RESERVES

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

Foreign currency translation reserve

Balance at beginning of financial year	(54,636)	(49,416)
Exchange rate fluctuation during year	(822)	(5,220)
Balance at end of financial year	<u>(55,458)</u>	<u>(54,636)</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	1,211,613	1,185,687
Share based payments during the year to:		
Employees and consultant	3,436	5,064
Directors	1,940	20,862
Balance at end of financial year	<u>1,216,988</u>	<u>1,211,613</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.

21. ACCUMULATED LOSSES

Balance at beginning of financial year	(30,665,025)	(29,532,866)
Net loss for year	(1,067,893)	(1,132,159)
Loss on deconsolidation of foreign subsidiaries	-	-
Balance at end of financial year	<u>(31,732,918)</u>	<u>(30,665,025)</u>

22. MINORITY INTERESTS

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

23. PARTICULARS RELATING TO CONTROLLED ENTITIES

Name of entity	Country of incorporation	Ownership interest 2014 %	Ownership interest 2013 %
Controlled entities			
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

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24. COMMITMENTS FOR EXPENDITURE

(a) Capital expenditure commitments		2014	2013
There are no capital expenditure commitments at the end of the financial year.		\$	\$
(b) Lease commitments			
<u>Operating leases</u>			
Operating leases relate to office facilities. The consolidated entity does not have an option to purchase the leased asset at the expiry of the lease period.			
Not later than one year		-	49,500
Later than 1 year but not later than 5 years		-	-
		<u>-</u>	<u>49,500</u>

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

25. KEY MANAGEMENT PERSONNEL DISCLOSURES

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

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

- (b) Other key management personnel**

Robert Waring (Company Secretary)

- (c) Compensation**

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

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

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

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26. SHARE BASED PAYMENTS

(a) Recognised share-based payment expenses

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

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

(b) Details of share-based payment plan

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

Employee Share Option Plan

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

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

- (i) Vesting
33.33% vest on the first anniversary of grant of 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 is 5 years.
- (iii) The exercise price determined in accordance with the Rules of the plan is based on the weighted average price of the Company's shares for the 20 trading days prior to the offer.
- (iv) Each option is convertible to one ordinary share.
- (v) All options expire on the earlier of their expiry date or 90 days after voluntary termination of the participant's employment
- (vi) There are no voting or dividend rights attached to the options. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the ordinary shares which will be issued when the options have been exercised.
- (vii) The options issued are on an equity settled basis. There are no cash settlement alternatives.

Fair value of options issued

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

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

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

No options were granted during 2014 financial year.

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

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

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27. RELATED PARTY DISCLOSURES

(a) Parent Entity

Aeris Environmental Ltd is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 23.

(b) Key management personnel

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

(c) Transactions with Directors and Director related entities

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

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

Details of these transactions are shown below:

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

The Company and its controlled entities received rental income from Regional Healthcare Group Pty Ltd.	-	67,594
--	---	--------

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

Stangcorp Pty Ltd

The Company and its controlled entities paid for services provided by Stangcorp Pty Ltd.

Electricity	879	7,897
Repairs and Maintenance	1,118	1,701
Interest on loans	13,615	7,658

Loan borrowings from Stangcorp Pty Ltd.	400,000	250,000
Loan repaid to Stangcorp Pty Ltd.	650,000	-

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

Steven Kritzler

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

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

Mr S Kritzler is a Non-Executive Director of the Company.

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27. RELATED PARTY DISCLOSURES (CONTINUED)

	2014 \$	2013 \$
(c) Transactions with directors and director related entities (continued)		
Novapharm Research (Australia) Pty Ltd		
The company and its controlled entities paid for services provided by Novapharm Research (Australia) Pty Ltd.		
Research and Development	111,815	98,804
Patent and other expenses	41,644	19,839
Mr M Stang, S Kritzler and B Stang are Directors and shareholders of Novapharm Research (Australia) Pty Ltd.		
Ramlist Pty Ltd		
The Company and its controlled entities paid rent and utility outgoings to Ramlist Pty Ltd.	10,426	261,489
Mr M Stang and Mr B Stang are Directors and shareholders of Ramlist Pty Ltd.		
(d) Loan from Directors (contributed equally by M Stang, B Stang and S Kritzler)		
Interest on loans	54,450	-
Loan borrowings	2,050,000	-
Mr M Stang, S Kritzler and B Stang are Non-Executive Directors and shareholders of the Company.		
(e) Outstanding balances payable from purchases of services		
Regional Healthcare Group Pty Ltd	8,892	63,399
Novapharm Research (Australia) Pty Ltd	81,633	211,157
Ramlist Pty Ltd	-	433
Stangcorp Pty Ltd	259	1,497
<i>Outstanding balances at year end are unsecured, interest free and settlement occurs in cash</i>		
Outstanding loan balances		
Stangcorp Pty Ltd	-	250,000
Steven Kritzler	-	450,000
Directors' loan	2,050,000	-
<i>Interest is charged on these loans at 6.2% per annum (ATO benchmark rates)</i>		

28. FINANCIAL INSTRUMENTS DISCLOSURES

(a) Capital

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

(b) Financial instrument risk exposure and management

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

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

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28. 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;
other receivables;
deposits and bonds;
trade and other payables;
lease liabilities; and
convertible notes

(d) General objectives, policies and processes

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

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

(i) Credit risk

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

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

	2014	2013
	\$	\$
Trade receivables	436,081	370,754
Deposits and bonds	<u>7,532</u>	<u>7,553</u>
	<u>443,613</u>	<u>378,307</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.

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

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

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

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28. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

(ii) Liquidity risk (continued)

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

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

* These have an option of settlement by issue of shares

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28. 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 :

2014	NOTE	WEIGHTED AVERAGE INTEREST RATES	FLOATING INTEREST RATES	FIXED INTEREST RATES	NON-INTEREST BEARING	TOTAL
Financial assets						
Cash	9	2.50%	5,682	-	156,255	161,937
Receivables	10	0.00%	-	-	162,377	162,377
Total Assets			5,682	-	318,632	324,314
Financial liabilities						
Payables	14	0.00%	-	-	291,801	291,801
Interest bearing liabilities	17	6.20%	-	2,050,000	-	2,050,000
Loans	15	10.00%	-	100,000	-	100,000
Total Liabilities			-	2,150,000	291,801	2,441,801
Net financial assets (liabilities)			5,682	(2,150,000)	26,831	(2,117,487)
2013						
Financial assets						
Cash	9	2.50%	51,057	-	129,596	180,653
Receivables	10	0.00%	-	-	98,403	98,403
Total Assets			51,057	-	228,000	279,056
Financial liabilities						
Payables	14	0.00%	-	-	534,061	534,061
Interest bearing liabilities	17	6.20%	-	700,000	-	700,000
Loans	15	10.00%	-	100,000	-	100,000
Total Liabilities			-	800,000	534,061	1,334,061
Net financial assets (liabilities)			51,057	(800,000)	(306,061)	(1,055,004)

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

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

Sensitivity analysis

2013	Carrying amount	+3% interest rate Profit & Loss	-3% interest rate Profit & Loss
Cash at bank	51,057	1,532	(1,532)
	51,057	1,532	(1,532)
Tax charge of 30%		(460)	460
Post tax profit increase / (decrease)		1,072	(1,072)

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28. 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:

	2014 US\$	2013 US\$
Cash at bank	6,986	15,407
Trade and other receivables	800	800
Trade and other payables	(3,336)	(3,772)
Net Exposure	<u>4,450</u>	<u>12,434</u>

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

Sensitivity analysis

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

Sensitivity analysis

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

(e) Fair value measurement

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

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

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

29. CONTINGENT LIABILITIES

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

30. ADDITIONAL COMPANY INFORMATION

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

Principal registered office and principal place of business

5/26-34 Dunning Avenue
ROSEBERY
NSW 2018

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31. SUBSEQUENT EVENTS

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

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

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

32. OPERATING SEGMENTS INFORMATION

Identification of reportable segments

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

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

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

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

Intersegment transactions

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

Intersegment receivables, payables and loans

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

Major Customer

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

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

Operating segment information of the consolidated entity

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

** Refer Note 34

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32. SEGMENT INFORMATION (CONTINUED)

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

** Refer Note 34

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

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

34. DISCONTINUED OPERATIONS

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

- (b) Financial performance of the discontinued operations

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

- (c) Assets and liabilities of discontinued operations

	2014	2013
	\$	\$
Cash balance	-	-
Plant, property and equipment	-	-
Net Accrued liabilities	-	(8,137)
Reserve for discontinued operations	-	(8,137)

- (d) Cash flow summary for discontinued operations

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

- (e) Earnings per share from discontinued operations

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

AERIS ENVIRONMENTAL LTD
AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

35. NOTES TO CASH FLOW STATEMENTS

(a) Reconciliation of cash

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

	2014	2013
	\$	\$
Cash at bank and on hand	161,937	180,653
	<u>161,937</u>	<u>180,653</u>

(b) Businesses acquired

During the previous year no acquisitions were made.

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

	2014	2013
	\$	\$
Operating loss after income tax	(1,067,893)	(1,132,159)

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

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

Changes in assets and liabilities

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

Net cash used in operating activities

<u>(1,364,140)</u>	<u>(670,220)</u>
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**AERIS ENVIRONMENTAL LTD
AND CONTROLLED ENTITIES**

DIRECTORS' DECLARATION

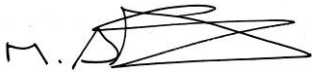
In accordance with a resolution of directors, I state that:

1 In the opinion of the Directors:

- (a) the financial statements and notes, as set out on pages 13 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 2014 and its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations 2001;
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1; and
- (c) There are reasonable grounds to believe that the company and the consolidated entity will be able to pay its debts as and when they become due and payable;

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

On behalf of the Board of Directors



M STANG
Director

Sydney, 15 September 2014

INDEPENDENT AUDITOR'S REPORT

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To the members of Aeris Environmental Limited

Report on the Financial Report

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

Directors' Responsibility for the Financial Report

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

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

Auditor's Responsibility

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

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

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

Independence

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

Auditor's Opinion

In our opinion:

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

Emphasis of Matter

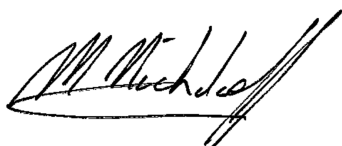
Without modifying our opinion, we draw attention to Note 1 in the financial report, which indicates that the consolidated entity incurred a net loss of \$1,067,893 for the year ended 30 June 2014 and, as of that date, the consolidated entity's total liabilities exceeded its total assets by \$2,103,879. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and therefore, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

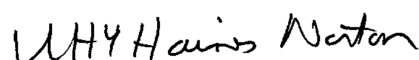
We have audited the Remuneration Report included in pages 8 to 11 of the directors' report for the year ended 30 June 2014. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our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

Auditor's Opinion

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



M. D. Nicholaeff
Partner, Sydney
Dated 15th September 2014



UHY Haines Norton
Chartered Accountants