

Antaria Limited

ACN 079 845 855

Half-Year Report – 31 December 2013

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2013 and any public announcements made by Antaria Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Your directors present their report on the consolidated entity consisting of Antaria Limited and the entities it controlled ("Antaria" or the "Group") at the end of, or during, the half-year ended 31 December 2013.

DIRECTORS

The names of directors who held office during or since the end of the interim period and until the date of this report are noted below. Directors were in office for the entire period unless otherwise stated.

Rade Dudurovic (Chairman)
Ron Higham (Non-Executive Director)
Paul Pisasale (Non-Executive Director)

REVIEW OF OPERATIONS

Highlights

- The company commenced commercial sales of the new *ZinClear-XP™* powder product.
- Cost reduction initiatives continued to be a key focus. This is reflected in the reduction in expenses for the period of 25% compared to the previous corresponding period.
- The company continues to expand production capacity for *Alusion™* and this is reflected in the capital expenditure during the period.
- Sales to Merck KGaA ("Merck") of *Alusion™* continue to track higher with revenue for the half year of \$835,125 compared to the previous corresponding period in FY13 of \$545,733, an increase of 53%.
- A tax benefit of \$255,880 from a Research and Development Claim, which was received in February 2014.

Sales and Profit Overview

Antaria recorded total sales of \$1.49 million for the half year ended 31 December 2013 compared to \$2.67 million for the previous corresponding period in FY13. This resulted in a net loss after tax of \$121,402 compared to a net loss after tax of \$25,461 for the previous corresponding period.

The decrease in total sales is due to *ZinClear-IM™*. Approximately \$1.26 million of the reduction in *ZinClear-IM™* sales when compared to the prior corresponding period was due to the unexpected decision of the North American distributor, DOW Chemical Company ("DOW"), to reduce stock holdings, instead of purchasing new product. The decision by DOW driven by internal inventory management policies, was very disappointing given demand for *ZinClear-IM™* in the North American market remains solid.

The DOW destocking decision coupled with ongoing issues regarding DOW's North American distribution model has brought into serious question the suitability of DOW to continue as the exclusive distributor of *ZinClear-IM™* in its designated territories. Following repeated negotiations with DOW, the company has exercised its rights to terminate the DOW distribution arrangements effective no later than April 2015. The company has also initiated proceedings for early termination, compensation and damages from DOW.

The margin has decreased during the period due to the impact of the absorption of fixed manufacturing overhead costs over a lower level of sales for the period ended 31 December 2013 compared to 31 December 2012.

Plant Upgrade

Antaria is upgrading *Alusion™* capacity to keep pace with the growth in volumes under the revised Merck Supply Agreement, including increasing the number of shifts worked.

Cash Balance

Antaria's cash balance as at 31 December 2013 was \$831,291 compared to 30 June 2013 balance of \$1,633,209. Antaria has completed the majority of its capital expenditure program, which together with the Research and Development refund, will assist cash flow in future periods.

The cash balance as at 25 February 2014 was \$1,014,350.

Outlook

The Group provided details of its strategy at the Annual General Meeting held in November 2013. Recent developments include:

- Continued increases in *Alusion™* volumes, to meet increased demand.
- Negotiation of alternative distribution agreements in respect of the North America market.
- Growing demand for *ZinClear-XP™* samples and formulations. Distributor and customer feedback continues to be very positive.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 4.

This report is made in accordance with a resolution of directors.

A handwritten signature in red ink, appearing to be 'Rade Dudurovic', with a small dot at the end.

Rade Dudurovic
Chairman

Brisbane, Queensland
26 February 2014

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the consolidated financial report of Antaria Limited for the half-year ended 31 December 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b) any applicable code of professional conduct in relation to the review.

Perth, Western Australia
26 February 2014



W M Clark
Partner

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the half-year ended 31 December 2013

ANTARIA

	Notes	31-Dec-13 \$	31-Dec-12 \$
Continuing operations			
Revenue		1,491,529	2,669,997
Cost of goods sold		<u>(1,255,598)</u>	<u>(1,870,392)</u>
Gross profit		235,931	799,605
Other income		116,981	128,296
Research and product development costs	3	(235,165)	(362,691)
Sales and marketing costs	3	(64,234)	(55,828)
Corporate and administrative costs	3	<u>(430,795)</u>	<u>(534,843)</u>
Loss before income tax		(377,282)	(25,461)
Income tax benefit – research and development grant		<u>255,880</u>	-
Loss after tax from continuing operations		<u>(121,402)</u>	<u>(25,461)</u>
Net (loss) attributable to members of parent		<u>(121,402)</u>	<u>(25,461)</u>
Other comprehensive income			
Items that may be reclassified to profit and loss:			
Exchange differences on translation of foreign operations		-	<u>(4,231)</u>
Other comprehensive loss for the period net of tax		-	<u>(4,231)</u>
Total comprehensive loss for the period		<u>(121,402)</u>	<u>(29,692)</u>
Loss is attributable to:			
Owners of Antaria Limited		<u>(121,402)</u>	<u>(25,461)</u>
Total comprehensive loss for the period is attributable to:			
Owners of Antaria Limited		<u>(121,402)</u>	<u>(29,692)</u>
Loss per share attributable to the ordinary equity holders of the company			
- basic loss per share (cents)		(0.02)	(0.00)
- diluted loss per share (cents)		<u>(0.02)</u>	<u>(0.00)</u>

The above Consolidated Statement of Comprehensive Income should be read in accordance with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2013

ANTARIA

	Notes	CONSOLIDATED	
		31-Dec-13	30-Jun-13
		\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents		831,291	1,633,209
Trade and other receivables		819,171	709,393
Inventories		1,215,338	1,275,117
Total Current Assets		2,865,800	3,617,719
Non-Current Assets			
Property, plant and equipment		2,607,381	2,427,349
Total Non-Current Assets		2,607,381	2,427,349
TOTAL ASSETS		5,473,181	6,045,068
LIABILITIES			
Current Liabilities			
Trade and other payables		165,950	453,709
Provisions		46,546	-
Deferred income		160,039	160,039
Other liabilities		174,857	208,569
Total Current Liabilities		547,392	822,317
Non-Current Liabilities			
Provisions		43,795	138,678
Deferred income		1,443,863	1,524,540
Total Non-Current Liabilities		1,487,658	1,663,218
TOTAL LIABILITIES		2,035,050	2,485,535
NET ASSETS		3,438,131	3,559,533
EQUITY			
Issued Capital	5	40,016,087	40,016,087
Option Premium Reserve		1,100,215	1,100,215
Other Reserves		15,940	15,940
Accumulated losses		(37,694,111)	(37,572,709)
TOTAL EQUITY		3,438,131	3,559,533

The above Consolidated Statement of Financial Position should be read in accordance with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the half-year ended 31 December 2013

ANTARIA

	CONSOLIDATED	
	31-Dec-13	31-Dec-12
	\$	\$
Cash flows from operating activities		
Receipts from customers	1,397,944	2,352,582
Payments to suppliers and employees	(1,913,559)	(2,876,082)
	(515,615)	(523,500)
Interest received	9,396	66,827
Receipt of contract R&D income	-	44,618
Net cash (outflows) from operating activities	(506,219)	(412,055)
Cash flows from investing activities		
Purchase of property, plant and equipment	(307,444)	(381,803)
Net cash (outflows) from investing activities	(307,444)	(381,803)
Cash flows from financing activities		
Proceeds from issues of shares	-	-
Transaction costs of issue of shares	-	-
Net cash inflows from financing activities	-	-
Net (decrease) in cash and cash equivalents held	(813,663)	(793,858)
Cash and cash equivalents at the beginning of the period	1,633,209	3,695,398
Exchange rate adjustment	11,745	-
Cash and cash equivalents at the end of the period	831,291	2,901,540

The above Consolidated Statement of Cash Flows should be read in accordance with the accompanying notes.

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

ANTARIA

	Attributable to equity holders of the parent				
	Issued capital	Option premium reserve	Foreign currency translation reserve	Accumulated losses	Total
	\$	\$	\$	\$	\$
As at 1 July 2013	40,016,087	1,100,215	15,940	(37,572,709)	3,559,533
Currency translation difference	-	-	-	-	-
Loss for the period	-	-	-	(121,402)	(121,402)
<i>Total Comprehensive Loss for the period</i>	-	-	-	(121,402)	(121,402)
<i>Transactions with owners in their capacity as owners</i>					
Shares issued	-	-	-	-	-
As at 31 December 2013	<u>40,016,087</u>	<u>1,100,215</u>	<u>15,940</u>	<u>(37,694,111)</u>	<u>3,438,131</u>
As at 1 July 2012	40,016,087	1,100,215	20,171	(37,124,510)	4,011,963
Currency translation difference	-	-	(4,231)	-	(4,231)
Loss for the period	-	-	-	(25,461)	(25,461)
<i>Total Comprehensive Loss for the period</i>	-	-	(4,231)	(25,461)	(29,692)
<i>Transactions with owners in their capacity as owners</i>					
Shares issued	-	-	-	-	-
As at 31 December 2012	<u>40,016,087</u>	<u>1,100,215</u>	<u>15,940</u>	<u>(37,149,971)</u>	<u>3,982,271</u>

The above Consolidated Statement of Changes in Equity should be read in accordance with the accompanying notes.

1. BASIS OF PREPARATION OF HALF-YEAR FINANCIAL STATEMENTS

Statement of Compliance

These general purpose financial statements for the half-year reporting period ended 31 December 2013 have been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

These financial statements do not include all the notes of the type normally included in the annual financial statements. Accordingly, this report is to be read in conjunction with the annual financial statements for the year ended 30 June 2013 and any public announcements made by Antaria during the 6 months ended 31 December 2013 in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Basis of measurement

These interim financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of the financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas requiring a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements were the same as those that applied to the consolidated financial statements for the year ended 30 June 2013.

Functional and presentation currency

These interim financial statements are presented in Australian dollars, the functional currency of the Company. The subsidiaries have the following functional currencies: United States Dollars and Euros. The financial information of these entities has been translated into the presentation currency in accordance with AASB 121 *The Effects of Changes in Foreign Exchange Rates*.

Adoption of new and revised Accounting Standards

In the half-year ended 31 December 2013, the directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the company's operations and effective for annual reporting periods beginning on or after 1 July 2013. It has been determined by the directors that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the company's business and, therefore, no change is necessary to Group accounting policies.

The directors have also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2013. As a result of this review the directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the company's business and, therefore, no change is necessary to Group accounting policies.

2. SEGMENT INFORMATION

(a) Description of Segments

Management has determined the operating segments based on reports reviewed by the Board that are used to make strategic decisions.

The Board considers the business from a market perspective and has identified one reportable segment; the Personal Care segment which produces and distributes dispersions of mineral-only UV filters in cosmetic emollients used for sunscreen, skincare and pharmaceutical formulations, as well as alumina plate-like powders used for cosmetic applications. Hence it does not see the need to report by industry segments.

(b) Revenue by geographical region

Revenue by geographical region attributable to external customers is disclosed below, based on the location of the external customer.

	31 Dec 2013 \$	31 Dec 2012 \$
Australia	428,709	665,188
United States of America	-	1,264,286
Europe	1,006,957	719,453
Rest of world	55,863	21,070
Total	<u>1,491,529</u>	<u>2,669,997</u>

(c) Major customers

The Group has a number of customers to whom it provides products. The Group's most significant customer accounts for 56% (2012: 49%) of total revenue and the next most significant customer accounts for 11% (2012: 21%) of total revenue. All other customers are individually less than 5% (2012: 10%) of total revenue.

3. LOSS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

Loss for the period includes the following items:

	31-Dec-13	31-Dec-12
	<u>\$</u>	<u>\$</u>
<i>Research and product development expenses</i>		
Labour and personnel expenses	127,505	249,000
Occupancy expenses	9,116	42,762
External benchmarking expenses	14,412	4,561
Patent and trademark expenses	49,594	45,079
Depreciation and amortisation	11,374	12,610
Other research and development operating expenses	<u>23,164</u>	<u>8,679</u>
Total research and development expenses	<u><u>235,165</u></u>	<u><u>362,691</u></u>
<i>Sales and marketing costs</i>		
Labour and personnel expenses	39,687	27,294
Consultants	-	11,800
Travel and related expenses	11,550	4,933
Other sales and marketing expenses	<u>12,997</u>	<u>11,801</u>
Total sales and marketing related expenses	<u><u>64,234</u></u>	<u><u>55,828</u></u>
<i>Corporate and administrative expenses</i>		
Labour and personnel expenses	148,484	228,986
Legal and compliance expenses	44,101	26,540
Travel and related expenses	80,895	97,591
Insurance expenses	58,737	29,008
Consultants	10,769	27,518
Consultants – research and development grant	46,032	-
Investor relations	33,822	22,978
Depreciation and amortisation expense	20,596	20,742
Occupancy expenses	10,716	8,320
Unrealised and realised foreign exchange (gains)	(63,257)	56,861
Other corporate and administrative expenses	<u>39,900</u>	<u>16,299</u>
Total corporate and administrative expenses	<u><u>430,795</u></u>	<u><u>534,843</u></u>

4. DIVIDENDS

No dividends were paid or proposed during the half-year.

5. EQUITY SECURITIES ISSUED

Issues of ordinary shares during the half-year

There were no shares issued during the current period.

<i>Movements in ordinary shares on issue</i>	6 months ended 31-Dec-13		Year ended 30-Jun-13	
	Number	\$	Number	\$
As at 1 July	585,839,150	40,016,087	585,839,150	40,016,087
Issued during the period	-	-	-	-
As at 31 December	585,839,150	40,016,087	585,839,150	40,016,087

6. SUBSIDIARIES

The consolidated financial statements include the financial statements of Antaria Limited and the subsidiaries listed in the following table:

Name	Country of Incorporation	% Equity Interest	
		2013	2012
Advanced Nano Technologies Pty Limited	Australia	100%	100%
Antaria, Inc	USA	100%	100%
Antaria Europe, B.V.	Netherlands	100%	100%

7. CONTINGENT ASSETS AND LIABILITIES

Property Leases

Antaria has entered into leases for two properties in Welshpool that include 'make good' clauses that would apply if Antaria vacate the premises.

There has been no other change in contingent assets and liabilities since the last annual reporting date.

8. EVENTS OCCURRING AFTER THE BALANCE DATE

There has not arisen in the interval between 31 December 2013 and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future years.

The directors declare that:

- a) the financial statements set out on pages 5 to 12 are in accordance with the *Corporations Act 2001*, including:
 - i) complying with Accounting Standard AASB 134 *Interim Financial Reporting*, and the *Corporations Regulations 2001*, and
 - ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and
- b) in the directors' opinion, there are reasonable grounds to believe that Antaria Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



Rade Dudurovic
Chairman

Brisbane, Queensland
Date: 26 February 2014

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Antaria Limited

Report on the Condensed Half-Year Financial Report

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

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

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

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



HLB Mann Judd
Chartered Accountants



W M Clark
Partner

Perth, Western Australia
26 February 2014