AERIS ENVIRONMENTAL LTD

ACN 093977336

ANNUAL REPORT 2016

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CHAIRMAN AND CHIEF EXECUTIVE OFFICER REPORT

Aeris Environmental Ltd (Aeris or the Company) is pleased to present its Annual Report for the financial year ended 30 June 2016. During the period, the Company has assembled and integrated a range of outstanding assets and capabilities, positioning Aeris as an emerging leader in energy efficiency and green building technologies.

The Company had a cash balance of $5.4 million as at 30 June 2016. Income has more than doubled in the last year, from a modest base. However, purchase orders and the forward pipeline of revenues have increased much more significantly in the period. During the early part of the ramp-up period there can be an industry standard lag between the securing of business and purchase orders, and the delivery / installation that leads to final sales revenue recognition. This is driven by manufacturing lead times and export transit times, and is characteristic of project work where installation and commissioning are often determined by the customer's timelines.

The Company now has an 'end-to-end' capability, delivering HVAC and refrigeration hygiene, OEM coating solutions and a unique capability in building optimisation, measurement and verification, and control via scalable Internet of Things / building management system solutions.

During the 2015-16 period, two strategic technology acquisitions / integrations were successfully completed. The IMECH building management business of Tim Richardson, and Arnold Kloer's JIA Corporation, delivering in-house expertise in control systems, which have already contributed to the extension and capabilities of the Aeris Smart HUB Ecosystem.

Whilst there have been some additional time and resources applied to both the scope and specification of Aeris' Smart HUB programme, the Company believes that the targeted outcome could put Aeris at the forefront of building energy efficiency, with a focus on control of measurable deliverables, rather than the current practice of delivering big data that has little impact on the customers' operations.

The past financial year has seen Aeris form early relationships with leading Australian and international wholesalers, with a progressive rollout of the AerisGuard 'clean tech' consumable range. In tandem, the Company has secured a broad range of high profile 'end-user' customers including AccorHotels Group, BlueScope Steel, Fresh Freight, Auslec / Lawrence & Hanson, Cushman & Wakefield, Marriott Hotels, Kempinski Hotels, Broadspectrum (formerly Transfield Services), Queensland Health and many others.

A core undertaking has been the establishment of Aeris' international distribution capability, with the formation in Singapore of Aeris Cleantech Asia Pte Ltd with Benjamin Kwek and the expansion of the Company's operations in Thailand, and key markets across Asia and Europe. Aeris is now completing an extensive review of the USA market opportunity, covering potential customers, dealers, wholesales and value-added partners. Initial indications support a targeted near-term market entry, building on the Company's 'clean tech' consumables and leveraging Aeris' complete Ecosystem of SmartENERGY efficiency solutions.

A substantial investigation has been undertaken into a range of off balance sheet finance solutions, allowing the Company's customers to have the potential to be both cash flow and P&L positive from the implementation of our shared agreements. The first of these agreements has been installed, and now commissioned, with Fresh Freight, a leading cold chain logistics provider to the Australian salmon industry. Aeris is in advanced discussions with two leading Australian banks and a number of international financial groups with a view to providing pre-approved asset upgrade funding to rated corporate clients that utilise the Smart HUB Ecosystem.

During the 2015-16 year, Aeris has undertaken the development and release of a next generation OEM technology, with a number of pivotal local and international launch customers. These proprietary technologies have already generated both sales and purchase orders to high-profile customers, and the Company is undertaking a final field validation of the new process, which, if successful, will target a broad cross section of the global OEM coil market.

In parallel, the new Maintenance Corrosion Protection Plus service product is gaining traction and early acceptance of its technical and application advantages provided by this 'clean green' product. An important focus has been applied to the dual applications of Aeris' technology to mould remediation and odour control. Early momentum has been such that it has attracted customer interest from the waste management industry, commercial food production, facilities managers and, specifically, the hotel industry.

The Company would like to acknowledge the outstanding contribution of its entire team, including the R&D group, its local and international distribution partners, and the many institutions and collaborators who have helped Aeris develop and produce the AerisGuard SMART Ecosystem.

Maurie Stang
Non-Executive Chairman

Peter Bush
Chief Executive Officer

- AerisGuard consumables for HVAC hygiene, and specialty products for remediation and bacterial control.
- SmartENERGY Ecosystem.
- OEM advanced coatings for the prevention of corrosion, mould and biofilm

CHAIRMAN AND CHIEF EXECUTIVE OFFICER REPORT

Financial	•	Scaling customer and distributor purchases in each business unit – AerisGuard consumables for HVAC hygiene, and specialty products for remediation and bacterial control, SmartENERGY Ecosystem, OEM advanced coatings for the prevention of corrosion, mould and biofilm.
	•	Strong forward pipeline of revenue opportunity in Australia, New Zealand, Thailand, Singapore, Vietnam, the Philippines, Malaysia and Hong Kong through Aeris' subsidiaries and partners.
Consumables	•	Successful, initial launch of pivotal Aeris wholesale strategy with Heatcraft in Australia and New Zealand.
	•	Execution of a platinum partnership with HydroKleen, a leading Australian air-conditioning cleaning and sanitising company, on the exclusive application of the AerisGuard range across its international customer base, with minimum purchases for Australian HydroKleen network of A$400,000 per annum and additional volume requirements for international territories.
	•	Specification by a national retail chain and large-scale health authority for ongoing use in its facilities across a large Australian state. Continuing to build key accounts in the high-end facilities management sector with a number of Government and private sector tender specifications prepared and submitted.
	•	Ongoing AccorHotels Group, BlueScope Steel, Fresh Freight, Auslec / Lawrence & Hanson, Cushman & Wakefield, Marriott Hotels, Kempinski Hotels, Broadspectrum (formerly Transfield Services), Queensland Health and many others.
Smartenergy	•	Acquisition and successful integration of IMECH building management and automation business, with Principal, Tim Richardson, joining Aeris. First material end user sale to high-profile, Australian REIT.
	•	Aeris Smart HUB design and pre-production activity on fast-track, with successful integration with Tridium / Niagara.
	•	First installed Power Share Heads of Agreement executed and installed at Fresh Freight, a leading food processor. Launch of SmartENERGY platform into single-site, paid, commercial installations.
	•	Strategic partnership concluded with leading vendor of cloud-based energy and resource analytic platform, VRT Systems.
	•	Landmark industrial group, BlueScope Steel, adopts AerisGuard and SmartENERGY product range at its key Port Kembla site, to be supplied through Auslec.
	•	Establishment of strategic relationships with key industry and channel partners, including assets and facilities management, electrical contractors, energy retailers, air-conditioning and refrigeration suppliers, and the property sector.
	•	Successfully building a portfolio of near-team opportunities for SmartENERGY across Australia and Asia, including high-profile shopping centre groups, retail, property, healthcare and Government opportunities.
	•	Aeris joins the Large Format Retail Association as the only HVAC energy efficiency company.

OEM Coatings	•	A growing HVAC OEM coating manufacturing engagement and awareness, with early orders, in key segments and countries. Active business development in each market and across the Asia Pacific region.
	•	Purchase orders received from leading Asian manufacturers for fourth generation OEM coatings and SMART optimisation devices. Announcement of Coils International Group agreement for the supply of novel OEM coatings.
	•	Scaling OEM coatings adoption, with orders received, and projected product requirements for these customers in excess of A$2 million annually.
Surfaces with residual protection - coatings	•	Two key product launches in Australia, with active business development in each key market and country.
	•	Commencement of shipping of commercial quantities of unique anti-microbial duct sealing coating with its launch customer in Australia who has projected annual requirements in excess of A$500,000. Aeris will utilise its expanded sales capability to drive its Myco Guard Duct Sealant to customers and applicators across the region.
	•	Launch of Aeris' novel rangehood cleaning solution. Early indications are that the Aeris rangehood coatings will solve 'real world' problems, and deliver lower costs, time savings, greater compliance and safety for customers and consumers alike. The focus market for the Company will be global fast food chains and restaurants together with leveraging its strong contacts in the retail and hospitality sectors. Recognised by way of a HACCP Australia food safety certification.
Enzymes and water treatment	•	Successful pre-commercial R&D user field trials of novel and next generation mould and odor remediation, ice-cream and food machine sanitation, and cooling tower water treatment and Surface Cleaner / Sanitiser spray pack with outstanding customer response.
	•	Initial agreement for exclusive distribution of proprietary biofilm / legionella sensor for incorporation into the Aeris Smart HUB universe.
Biostatic Polymers	•	The potential market opportunity for Aeris' biostatic polymer systems is expanding. The Company's resources continue to focus on the SmartENERGY and coatings platforms, and near-term product launches.
	•	Early market entry to be focused on high value-added applications.
International	•	Pre-market investment in human resources, market and business development activity undertaken for key US and southern European markets. Engagement of North American Business Development Manager, Peter Redden, with early validation of large-scale opportunity in the US market for the Aeris portfolio.
	•	Launch of Singaporean majority-owned distributor, Aeris Cleantech Asia Pte Ltd with Benjamin Kwek of ETHA Engineering. Incorporation of European wholly-owned distributor, Aeris Cleantech Europe, with highly-regarded HVAC company.
	•	BEX Asia 2016, and highly-successful industry presentation and participation at the Air-Conditioning, Refrigeration and Building Services show in May 2016.

DIRECTORS' REPORT

The Directors of Aeris Environmental Ltd submit herewith the annual financial report for the financial year ended 30 June 2016. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

DIRECTORS

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

MAURIE STANG

Non-Executive Chairman

Mr Stang is the Director of the Regional Health Care group of companies and of Novapharm Research. He has over 32 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 Limited since November 2000
- Non-Executive Deputy Chairman of Vectus Biosystems Limited since December 2005.

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.

Mr Kritzler is the Technical Director of Novapharm Research. He has over 41 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

Mr Bernard Stang (BArch) has a 40-year track record of building highly-successful companies in the medical, dental and pharmaceutical industries across Australia and New Zealand. In addition he is the Chairman and Chief Executive Officer of property companies Stangcorp Pty Ltd in Australia and Stoneville Ltd in New Zealand, which are involved in both the development and investment of commercial, industrial and residential properties. Mr B Stang is a Co-Founder and Director of Regional Health Care Group and Novapharm Research Pty Ltd, which led to the formation of Aeris Environmental Ltd and Nanosonics Pty Ltd. He was a Founder and Board member of Nanosonics Pty Ltd from 14 November 2000 until prior to its listing on ASX on 15 May 2007 as Nanosonics Limited. He is also a Founder and Director of Henry Schein Halas, a joint venture with the NASDAQ-listed Henry Schein, Inc., the leading wholesale supplier of dental products in Australasia. Mr B Stang manages a broad portfolio of investments in the private and listed sectors, and has 40 years of operational leadership in successful healthcare businesses.

Director since 2002.

Directorship of other listed companies held in the last three years:

- Non-Executive Director of Vectus Biosystems Limited since December 2005

PETER BUSH

Chief Executive Officer, Alternate Director for M and B Stang and Chief Financial Officer

Mr Bush has a B.Com and CA.

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.

Alternate Director since 2011.

Directorship of other listed companies held in the last three years:

- Non-Executive Director of Vectus Biosystems Limited since July 2015.

COMPANY SECRETARY

Mr Robert J Waring BEc, CA, FCIS, FFin, FAICD was appointed to the position of Company Secretary in 2002. Mr Waring has over 41 years experience in financial and corporate roles, including over 26 years in company secretarial roles for ASX listed companies and over 20 years as a Director of ASX listed companies. Mr Waring has over 31 years experience in industry and prior to that, spent nine years with an international firm of chartered accountants. He is a Director of Oakhill Hamilton Pty Ltd, which provides secretarial and corporate advisory services to a range of listed and unlisted companies. Mr Waring is also presently the Company Secretary of ASX-listed companies Nanosonics Limited, Vectus Biosystems Limited, Brain Resource Limited, Intec Ltd and Xref Limited.

Share Registry

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

DIRECTORS' REPORT

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	7	2	1	1
Number of meetings attended				
Maurie Stang	7	2	1	1
Steven Kritzler	6	-	1	-
Bernard Stang	6	1	-	1

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

COMMITTEE MEMBERSHIP

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

Audit Committee
Bernard Stang (Chairman)
Maurie Stang

Corporate Governance Committee
Maurie Stang (Chairman)
Bernard Stang

Remuneration & Nomination Committee
Maurie Stang (Chairman)
Bernard Stang

PRINCIPAL ACTIVITIES

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

- Research, development, commercialisation of proprietary technologies and global distribution of the AerisGuard range of products;
- Provision of HVAC/R Hygiene and Remediation Technology; and
- Provision of Energy Efficiency services.

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

REVIEW OF OPERATIONS

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

	2016 ($)	2015 ($)
Income	1,961,488	874,389
Expenses	(4,027,419)	(2,891,301)
Loss after income tax	(2,065,931)	(2,016,912)

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

DIVIDENDS

The Directors do not recommend the payment of a dividend in respect of the year ended 30 June 2016 (2015: 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

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

ENVIRONMENTAL REGULATIONS

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

INDEMNIFICATION OF OFFICERS AND AUDITORS

Indemnification

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

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

Insurance premiums

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

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

PROCEEDINGS ON BEHALF OF THE COMPANY

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

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

DIRECTORS' INTERESTS

Equity Holdings

	Ordinary shares	Options over ordinary shares
Maurie Stang	19,816,267	-
Bernard Stang	15,928,109	-
Steven Kritzler	8,331,609	-
Peter Bush	-	750,000

Options granted to directors and officers of the company

During or since the end of the 2016 financial year, the Company has not granted any options for no consideration over unissued ordinary shares in Aeris Environmental Ltd.

During the 2015 financial year, Company granted the following options:

- Peter Bush (Chief Executive Officer and Alternate Director) - 500,000 options

PARTICULARS OF OPTIONS GRANTED OVER UNISSUED SHARES:

	2016	2015
Options granted by the Company over unissued ordinary shares.	1,270,000	1,470,000
Shares issued in the period as the result of the exercise of options.	-	125,000
Options expired during the period.	200,000	-
Options granted during the period.	-	1,000,000

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

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 2016 is attached to this Directors' Report on page 19.

CORPORATE GOVERNANCE

Aeris Environmental Ltd's Corporate Governance Statement and ASX Appendix 4G are released to ASX on the same day the Annual Report is released.

The Company's Corporate Governance Statement, and its Corporate Governance Compliance Manual, can be all found on the Company's website at: http://www.aeris.com.au/investor-center/

KEY MANAGEMENT PERSONNEL

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

Non-Executive Directors
Maurie Stang
Bernard Stang
Steven Kritzler

Executive
Peter Bush (Chief Executive Officer and Alternate Director)

Company Secretary
Robert Waring

REMUNERATION REPORT (AUDITED)

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 2016 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. The plan was re-approved by shareholders at the Annual General Meeting held on 27 November 2014.

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 ranges 3-5 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.

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:

2016 *Shares*	Number held 30 June 2015	Acquired during year	Sold during year	Issued on exercise of options	Number held 30 June 2016
Specified directors					
Maurie Stang	18,816,267	1,000,000	-	-	19,816,267
Bernard Stang	14,928,109	1,000,000	-	-	15,928,109
Steven Kritzler	7,331,609	1,000,000	-	-	8,331,609
Peter Bush	-	-	-	-	-
Specified executives					
Robert Waring	103,000	-	-	-	103,000
	41,178,985	3,000,000	-	-	44,178,985

Options	Number held 30 June 2015	Granted during year	Lapsed during year	Exercised during year	Number held 30 June 2016
Specified directors					
Maurie Stang	-	-	-	-	-
Bernard Stang	-	-	-	-	-
Steven Kritzler	-	-	-	-	-
Peter Bush	750,000	-	-	-	750,000
Specified executives					
Robert Waring	-	-	-	-	-
	750,000	-	-	-	750,000

2015 *Shares*	Number held 30 June 2014	Acquired during year	Sold during year	Issued on exercise of options	Number held 30 June 2015
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 (Resigned 31 July 2014)	25,000	140,000	-	-	165,000
Peter Bush	-	-	-	-	-
Specified executives					
Robert Waring	103,000	-	-	-	103,000
	41,203,985	140,000	-	-	41,343,985

Options	Number held 30 June 2014	Granted during year	Lapsed during year	Exercised during year	Number held 30 June 2015
Specified directors					
Maurie Stang	-	-	-	-	-
Bernard Stang	-	-	-	-	-
Steven Kritzler	-	-	-	-	-
David Fisher (Resigned 31 July 2014)	-	-	-	-	-
Peter Bush	250,000	500,000	-	-	750,000
Specified executives					
Robert Waring	-	-	-	-	-
	250,000	500,000	-	-	750,000

REMUNERATION REPORT (AUDITED)

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:

	2016 ($)	2015 ($)
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	140,016	110,757
Rent	36,775	46,656
Distribution expenses	29,295	22,225
Corporate services	69,602	108,250
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	-	375
Mr M Stang and Mr B Stang are Directors and shareholders of Stangcorp Pty Ltd.		
Novapharm Research (Australia) Pty Ltd		
The company and its controlled entities paid for services provided by Novapharm Research (Australia) Pty Ltd.		
Research and Development	140,231	155,379
Patent and other expenses	116,166	130,584
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.	13,625	5,622
Mr M Stang and Mr B Stang are Directors and shareholders of Ramlist Pty Ltd.		
Loan from Directors (contributed equally by M Stang, B Stang and S Kritzler)		
Interest on loans	94,961	153,578
Loan borrowings	-	715,000
Loan repaid	1,500,000	250,000
Mr M Stang, S Kritzler and B Stang are Non-Executive Directors and shareholders of the Company.		
Outstanding balances payable from purchases of services		
Regional Healthcare Group Pty Ltd	746	21,444
Novapharm Research (Australia) Pty Ltd	(6,010)	3,319
Ramlist Pty Ltd	289	-
Outstanding balances at year end are unsecured, interest free and settlement occurs in cash		
Outstanding loan balances		
Directors' loan	1,015,000	2,515,000
Interest is charged on these loans at 5.45% per annum (ATO benchmark rates)		

DETAILS OF DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION FOR THE YEAR ENDED 30 JUNE 2016

	Short term benefits			Post employment benefits	Other long-term benefits	Equity based benefits		Total	Performance Related
	Salary and Director's Fees	STI Cash bonus	Non-monetary benefits	Superannuation		Shares	Options (Note (ii))		
	$	$	$	$	$	$	$	$	%
Non-Executive Directors									
Maurie Stang	-	-	-	-	-	-	-	-	0.0%
Bernard Stang	-	-	-	-	-	-	-	-	0.0%
Steven Kritzler	-	-	-	-	-	-	-	-	0.0%
Total Non-Executive Directors	-	-	-	-	-	-	-	-	
Executive Directors	-	-	-	-	-	-	-	-	**0.0%**
Total Directors	-	-	-	-	-	-	-	-	
Executives (Note (i))									
Peter Bush	195,506	-	-	18,573	-	-	925	215,004	0.0%
Robert Waring	53,164	-	-	-	-	-	-	53,164	0.0%
Total	**248,670**	**-**	**-**	**18,573**	**-**	**-**	**925**	**268,168**	

REMUNERATION REPORT (AUDITED)

DETAILS OF DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION FOR THE YEAR ENDED 30 JUNE 2015

	Short term benefits			Post employment benefits	Other long-term benefits	Equity based benefits		Total	Performance Related
	Salary and Director's Fees	STI Cash bonus	Non-monetary benefits	Superannuation		Shares	Options (Note (ii))		
	$	$	$	$	$	$	$	$	%
Non-Executive Directors									
Maurie Stang	-	-	-	-	-	-	-	-	0.0%
Bernard Stang	-	-	-	-	-	-	-	-	0.0%
Steven Kritzler	-	-	-	-	-	-	-	-	0.0%
David Fisher (Resigned 31 July 2014)	-	-	-	-	-	25,060	-	25,060	0.0%
Total Non-Executive Directors	-	-	-	-	-	**25,060**	-	**25,060**	
Executive Directors	-	-	-	-	-	-	-	-	**0.0%**
Total Directors	-	-	-	-	-	**25,060**	-	**25,060**	
Executives (Note (i))									
Peter Bush	-	-	-	-	-	-	617	617	0.0%
Robert Waring	75,382	-	-	-	-	-	-	75,382	0.0%
Total	**75,382**	-	-	-	-	**25,060**	**617**	**101,059**	

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

(i) "Executive Officers" are officers who are or were involved in, concerned in, or who take part in, the management of the affairs of Aeris and/or related bodies corporate.

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

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

Grant Date	Expiry Date	Fair value at grant date	Exercise price	Price of shares on grant date	Estimated volatility	Risk free interest rate
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%
08-Jan-15	31-Jul-16	$0.0031	$0.31	$0.28	5.7%	3.00%

EMPLOYMENT CONTRACTS

Chief Executive Officer (CEO) :

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

Contract term:	**Continuous employment until notice is given by either party**
Fixed remuneration:	$219,000 This is reviewed annually.
Notice period:	To terminate the employment, Mr Bush is required to provide Aeris with 3 months written notice. Aeris must provide 3 months written notice.
Resignation or termination:	On resignation, unless the Board determines otherwise: All unvested short term or long term benefits are forfeited. All vested but unexercised benefits are forfeited after 90 days following cessation of employment.
Statutory entitlements:	Annual leave applies in all cases of separation. Long Service applies unless service is under 10 years and he is dismissed for misconduct.
Termination for serious misconduct:	Aeris may immediately terminate employment at any time in case of serious misconduct, and Mr Bush will only be entitled to payment of fixed remuneration until termination date. Such termination will result in all unvested benefits being forfeited. Treatment of any vested but unexercised benefits will be at the discretion of the Board.
Post-Termination Restraint of Trade:	For a period of 6 months or, if that period is unenforceable, 3 months after termination of employment, Mr Bush must not in the area of Australia or, if that area is unenforceable, New South Wales: i. solicit, canvass, approach or accept any approach from any person who was at any time during his last 12 months with the Company a client of the Company in that part or parts of the business carried on by the Company in which he was employed with a view to obtaining the custom of that person in a business that is the same or similar to the business conducted by the Company; or ii. interfere with the relationship between the Company and its customers, employees or suppliers; or iii. induce or assist in the inducement of any employee of the Company to leave their employment.

There are no other contracts to which a Director is a party or under which a Director is entitled to a benefit other than as disclosed above and in note 26 to the financial statements.

REMUNERATION REPORT (AUDITED)

LINK BETWEEN REMUNERATION AND PERFORMANCE AND STATUTORY PERFORMANCE INDICATORS

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

	2016	2015	2014	2013	2012
Loss for the year attributable to owners of Aeris Environmental Ltd	(2,062,726)	(2,016,912)	(1,067,893)	(1,132,159)	(1,297,924)
Basic loss per share (cents per share)	(1.35)	(1.55)	(0.91)	(0.99)	(1.23)
Dividend payments	-	-	-	-	-
Increase/(decrease) in share price (%)	(6.67%)	309.09%	(31.25%)	(5.88%)	(10.53%)
Total KMP remuneration as percentage of loss for the year (%)	(13.00%)	(5.01%)	(3.63%)	(9.65%)	(13.07%)

The Group's revenue from ordinary activities in 2016 recorded an increase by 72% and gross profit by 83%.

Company is also in discussions with management and remuneration consultants to structure and align KMP remuneration to strategic business objectives with an aim of creation of shareholder wealth.

SHARE OPTIONS

750,000 options to take up ordinary shares in Aeris Environmental Ltd issued to key management personnel remain unexercised at 30 June 2016 (2015: 750,000 options).

No options were granted to key management personnel during the year ended 30 June 2016.

Following options were issued to key management personnel during the year ended 30 June 2015:

- Peter Bush (Alternate Director and Chief Executive Officer) 500,000 Options

There were no options issued to key management personnel which expired or were forfeited during the years 2015 and 2016.

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, 30 September 2016

UHY Haines Norton
Chartered Accountants

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Auditor's Independence Declaration

To the Directors of Aeris Environmental Ltd

In accordance with the requirements of Section 307C of the *Corporations Act 2001*, as lead auditor for the audit of Aeris Environmental Ltd for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, 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

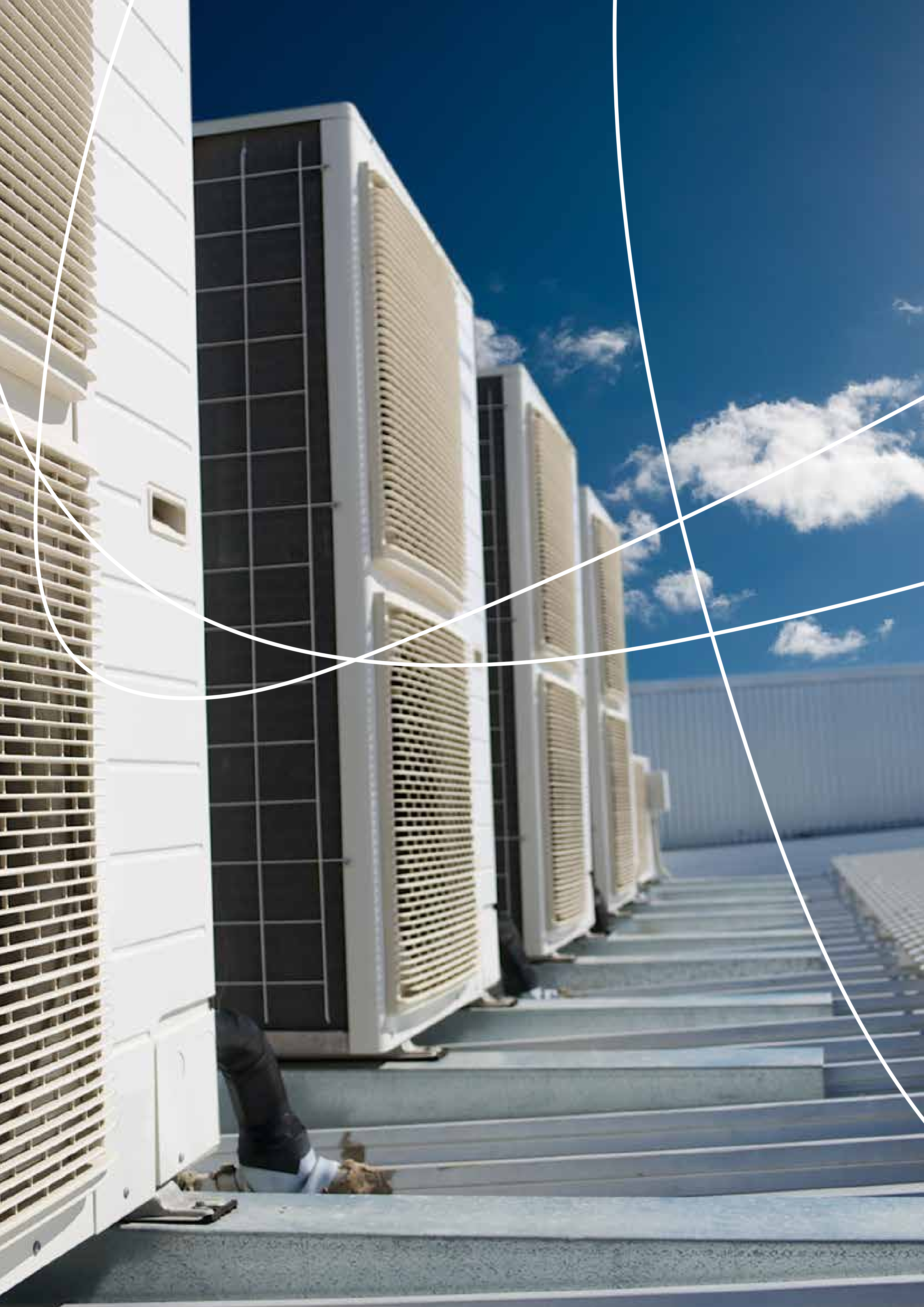
(ii) No contraventions of any applicable code of professional conduct in relation to the audit.

UHY Haines Norton

M. D. Nicholaeff
Partner
Sydney

UHY Haines Norton
Chartered Accountants

30 September 2016



CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

	Note	2016	2015
Continuing Operations		$	$
Revenue	4	1,378,086	800,886
Cost of sales		(350,272)	(239,884)
Gross profit		1,027,814	561,002
Other revenue	4	583,402	73,503
Administration expenses		(820,233)	(557,601)
Depreciation and amortisation expense	5	(33,788)	(7,809)
Distribution expense		(85,282)	(58,716)
Employee benefits expense	5	(1,669,153)	(883,937)
Financial expenses	5	(97,788)	(164,866)
Impairment expense	5	(30,957)	(13,621)
Research and development expense	5	(449,688)	(380,001)
Occupancy expenses	5	(225,982)	(153,016)
Provision for doubtful debt expense	5	-	(12,382)
Sales, Marketing and Travel expenses		(687,469)	(440,697)
Loss before income tax from continuing operations		**(2,489,126)**	**(2,038,141)**
Income tax benefit	6a	423,195	21,229
Net loss for the period		**(2,065,931)**	**(2,016,912)**
Other Comprehensive Income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences		(6,810)	(20,298)
Total comprehensive loss for the period, net of tax		**(2,072,741)**	**(2,037,210)**
Loss for the period attributable to:			
Owners of Aeris Environmental Ltd		(2,062,727)	(2,016,912)
Non-controlling interest	21	(3,204)	-
		(2,065,931)	(2,016,912)
Total comprehensive loss for the period attributable to:			
Owners of Aeris Environmental Ltd		(2,069,537)	(2,037,210)
Non-controlling interest	21	(3,204)	-
		(2,072,741)	(2,037,210)
Earnings per share	**7**		
Basic loss per share (cents per share)			
Loss from continuing operations		(1.35)	(1.55)
Diluted loss per share (cents per share)			
Loss from continuing operations		(1.35)	(1.55)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

	Note	2016	2015
CURRENT ASSETS		**$**	**$**
Cash and cash equivalents	9A	5,415,664	3,855,574
Financial assets	9B	-	4,800,000
Trade and other receivables	10	1,192,045	143,467
Inventories	11	170,933	46,763
Other current assets	12	135,634	64,751
TOTAL CURRENT ASSETS		**6,914,276**	**8,910,555**
NON-CURRENT ASSETS			
Intangible assets	13	-	30,957
Property, plant and equipment	13	151,281	26,314
TOTAL NON-CURRENT ASSETS		**151,281**	**57,271**
TOTAL ASSETS		**7,065,557**	**8,967,826**
CURRENT LIABILITIES			
Trade and other payables	14	447,997	343,546
Provisions	14	114,275	49,541
Interest bearing liabilities	15	1,015,000	2,515,000
TOTAL CURRENT LIABILITIES		**1,577,272**	**2,908,087**
NON-CURRENT LIABILITIES			
Provisions	16	10,764	22,876
TOTAL NON-CURRENT LIABILITIES		**10,764**	**22,876**
TOTAL LIABILITIES		**1,588,036**	**2,930,963**
NET ASSETS		**5,477,521**	**6,036,863**
EQUITY			
Contributed equity	17	40,100,112	38,600,112
Reserves	19	1,180,709	1,186,581
Accumulated losses	20	(35,812,557)	(33,749,830)
Non-controlling interest	21	9,257	-
TOTAL EQUITY		**5,477,521**	**6,036,863**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

	Equity	Reserves	Accumulated losses	Non-controlling interest	Total attributable to equity holders of the entity
	$	$	$	$	$
Balance at 1 July 2014	**28,467,508**	**1,161,531**	**(31,732,918)**	**-**	**(2,103,878)**
Loss for the year	-	-	(2,016,912)	-	(2,016,912)
Other comprehensive income / (loss)	-	(20,298)	-	-	(20,298)
Total comprehensive loss for the year	-	(20,298)	(2,016,912)	-	(2,037,211)
Transactions with owners in their capacity as owners:			.		
Shares issued during year	10,213,004	-	-	-	10,213,004
Share issue cost	(80,400)	-	-	-	(80,400)
Value of employee services under ESOP	-	770	-	-	770
Shares issued as consideration for business combinations	-	44,578	-	-	44,578
Balance at 30 June 2015	**38,600,112**	**1,186,581**	**(33,749,830)**	**-**	**6,036,863**
Loss for the year	-	-	(2,062,727)	(3,204)	(2,065,931)
Other comprehensive income / (loss)	-	(6,810)	-	-	(6,810)
Total comprehensive loss for the year	-	(6,810)	(2,062,727)	(3,204)	(2,072,741)
Non-controlling interest	-	-	-	12,461	12,461
Transactions with owners in their capacity as owners:					
Shares issued during year	1,500,000	-	-	-	1,500,000
Value of employee services under ESOP	-	938	-	-	938
Balance at 30 June 2016	**40,100,112**	**1,180,709**	**(35,812,557)**	**9,257**	**5,477,521**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

	Note	2016	2015
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)		819,277	819,796
Payments to suppliers and employees (inclusive of GST)		(4,450,469)	(2,673,680)
R&D tax offset rebate received		71,235	21,229
Interest and other income received		583,402	73,503
Interest paid		(97,788)	(171,022)
Net cash provided by/(used in) operating activities	33 (b)	(3,074,345)	(1,930,174)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in Term Deposits		4,800,000	(4,800,000)
Purchase of property, plant and equipment		(158,755)	(28,435)
Net cash provided by/(used in) investing activities		4,641,245	(4,828,435)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Shares Issue		-	10,087,944
Share Issue Cost		-	(80,400)
Loans repaid*		-	(250,000)
Loans borrowed		-	715,000
Net cash provided by financing activities		-	10,472,544
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,566,900	3,713,934
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR		3,855,574	161,938
Effects of exchange rate changes on cash and cash equivalents		(6,810)	(20,298)
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR		**5,415,664**	**3,855,574**

*During the 2016 financial year, Directors' loan amounting to $1,500,000 was repaid by issuing 3,000,000 company's ordinary shares. This did not have any effect on the group's cash flow.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

NOTE

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Corporate information

The financial report of Aeris Environmental Ltd (the Company) for the year ended 30 June 2016 was authorised for issue in accordance with a resolution of the Directors on 28 September 2016.

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 $2,065,931 for the year ended 30 June 2016 and has a net asset balance of $5,477,521 as at 30 June 2016. A liability for loans from related parties of $1,015,000 is reflected in the overall net asset balance of $5,477,521. The cash balance as at 30 June 2016 aggregated to $5,415,664.

The Financial Report has been prepared on a going concern basis. The Directors consider the Group has adequate funding and significant value of sales pipeline and therefore, no adjustments have been made to the financial report that might be necessary should the Group not continue as a going concern.

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 2015-9 - Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments.*

The Standard contains three main parts and makes amendments to a number of 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

• *AASB 2013-9 - Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality.*

The Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards.

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

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for financial years beginning after 1 July 2016 and have not been applied in preparing these consolidated financial statements. Of the new standards, only the following are expected to have an effect on the consolidated financial statements of the Group:

• *AASB 9 Financial instruments*, which becomes mandatory for Aeris Environmental Ltd's 2019 consolidated financial statements.

• *AASB 15 Revenue from contracts with customers*, which becomes mandatory for Aeris Environmental Ltd's 2019 consolidated financial statements.

• *AASB 16 Leases*, which becomes mandatory for Aeris Environmental Ltd 2020 consolidated financial statements.

The Group has yet to undertake a detailed assessment of these new standards. At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. The Group will make more detailed assessments of the impact over the next financial years.

Significant accounting policies

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

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

i. Business Combinations

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

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

ii. Borrowing costs

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

iii. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks, investments in money market instruments and short-term deposits with a maturity of three months or less, net of outstanding bank overdrafts.

iv. Comparative amounts

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

v. Depreciation

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

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

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

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

vi. Earnings per share

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

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

vii. Employee benefits

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

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

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

Share-based payment
Share-based compensation benefits are provided to employees via the Aeris Environmental Ltd Employee Option Plan. Information relating to these schemes is set out in Note 25.

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

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

viii. Financial Assets

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

ix. Financial Instruments issued by the company

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

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

x. Financial liabilities

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

These financial liabilities include the following items:

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

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

xi. Foreign currency

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

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

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

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

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

xii. Functional and presentation currency

The functional and presentation currency of Aeris Environmental Ltd and its Australian subsidiaries is Australian dollars (A$). Overseas subsidiaries use the currency of the primary economic environment in which the entity operates, which is translated to the presentation currency upon consolidation.

xiii. Goods and services tax

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

Receivables and payables are recognised inclusive of GST.

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

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

xiv. Impairment of assets

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

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

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

xv. Income tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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

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

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

Tax consolidation

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

The company is the head entity in the tax-consolidated group comprising all the Australian wholly-owned subsidiaries set out in Note 22. The head entity recognises all of the current and deferred tax assets and liabilities of the tax consolidated group (after elimination of intragroup transactions).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

xvi. Inventories

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

xvii. Leases

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

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

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

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

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

xviii. Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Aeris Environmental Limited ('company' or 'parent entity') as at 30 June 2016 and the results of all subsidiaries for the year then ended. Aeris Environmental Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'. Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

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

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

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

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

xix. Provisions

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

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

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

xx. Research and development

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

xxi. Recoverable amount of non-current assets

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

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

xxii. Revenue recognition

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

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

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

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

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

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

Other income
Other income is recognised as it is earned.

xxiii. Share capital

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's ordinary shares are classified as equity instruments. Any transaction costs associated with the issuing of shares are deducted from share capital.

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

xxiv. Borrowings and Convertible notes

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method if the impact is material to the financial report.
Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

xxvii. Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 32.

xxviii. Fair value measurement

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

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

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

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

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 $1,015,000, which is the loan from Directors. Interest is charged on this loan @ 5.45% (ATO benchmark rates).

d. Liquidity risk

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgments and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgments and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

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

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

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

a. 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 25. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

d. Fair value of financial instruments

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

4. REVENUE

	2016	2015
	$	$
Revenue		
Revenue from sales	635,714	684,080
Revenue from services	742,372	116,806
	1,378,086	**800,886**
Other Revenue		
Interest - other entities	205,130	68,253
Miscellaneous	378,272	5,250
	583,402	**73,503**

5. EXPENSES

Loss before income tax includes the following items of expense:

	2016	2015
	$	$
Depreciation and amortisation expense		
Amortisation of leasehold plant and equipment	5,277	-
Depreciation of plant and equipment	28,511	7,809
Total depreciation and amortisation expense	33,788	7,809
Employment expenses		
Base salary and fees	1,396,024	744,525
Superannuation & statutory oncosts	252,555	130,294
Share based payment expense (Note 25(a))	938	770
Other employee expenses	19,636	8,348
Total employment expense	1,669,153	883,937
Financial expenses		
Interest paid	97,788	164,866
	97,788	164,866
Other Expenses		
Doubtful debts expense	-	12,382
Impairment expense	30,957	13,621
Rental & occupancy expenses	225,982	153,016
Research and development expenses	449,688	380,001

6. INCOME TAX

a. Income tax benefit

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

	2016	2015
	$	$
Loss for year	(2,489,126)	(2,038,141)
Income tax benefit calculated at 30%	(746,738)	(611,442)
Temporary differences and tax losses not recognised	746,456	611,211
Non deductible expenses		
Share based payments	281	231
R&D tax offset rebate received	(71,235)	(21,229)
R&D tax offset rebate recevable	(351,960)	-
Income tax benefit attributable to loss	(423,195)	(21,229)

b. Deferred tax balances not recognised

Calculated at 30% not brought to account as assets:

	2016	2015
	$	$
Deferred tax liabilities		
Interest receivable	**10,744**	**7,529**
Deferred tax assets		
Tax losses		
Revenue tax losses available for offset against future tax income	6,302,941	5,684,334
Temporary differences		
Provision for doubtful debts	84,107	75,122
Provision for employee entitlements	32,050	21,725
Plant and equipment	49,569	46,319
Accruals	7,200	6,840
	172,926	**150,006**
Total deferred tax assets	**6,475,866**	**5,834,340**
Net deferred tax asset not recognised	**6,465,122**	**5,826,810**

c. Tax consolidation

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

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

ii. *Method of measurement of tax amounts*

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

iii. *Tax sharing agreements*

There are no tax sharing or funding agreements in place.

iv. *Tax consolidation contributions*

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

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

	2016	2015
	$	$
Basic loss per share (cents per share)	**(1.35)**	**(1.55)**
Diluted loss per share (cents per share)	**(1.35)**	**(1.55)**
Net loss - used to calculate basic EPS	(2,062,726)	(2,016,912)
Net loss - used to calculate diluted EPS	(2,062,726)	(2,016,912)
Weighted average number of ordinary shares used to calculate basic EPS	152,977,902	130,365,853
Convertible share options	-	32,973
Weighted average number of ordinary shares used to calculate diluted EPS	152,977,902	130,398,826

8. AUDITORS' REMUNERATION

	2016	2015
	$	$
Remuneration of UHY Haines Norton for :		
Audit of the annual financial report	22,000	20,100
Review of the half yearly financial report	11,000	9,000
Other services	4,200	4,650
Total auditors remuneration	**37,200**	**33,750**

9. CASH AND OTHER FINANCIAL ASSETS

a. Cash and Cash Equivalents

	2016	2015
	$	$
Cash at bank and on hand	59,508	199,409
Term Deposits	5,350,000	3,650,000
Deposits on call	6,156	6,165
	5,415,664	**3,855,574**

b. Financial Assets - held to maturity

	2016	2015
	$	$
Term Deposits (with maturity of more than 3 months from the acquisition date)	-	4,800,000

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

10. CURRENT TRADE AND OTHER RECEIVABLES

	2016	2015
	$	$
Trade receivables	1,120,848	422,540
Less provision for doubtful debts	(280,358)	(278,668)
Less provision for unrealised foreign exchange gain or loss	(405)	(405)
R&D tax offset rebate receivable	351,960	-
	1,192,045	**143,467**
The carrying amounts of the Group's current trade and other receivables are a reasonable approximation of their fair values.		
Ageing of impaired receivables are as follows:		
Less than 6 months overdue	-	-
More than 6 months overdue	280,358	278,668
Movements in provision for impairment of receivables		
Opening balance	278,668	273,299
Foreign exchange difference	1,689	5,369
Closing balance	280,358	278,668

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

11. INVENTORIES

	2016	2015
	$	$
Inventories - at cost	170,933	46,763
	170,933	**46,763**

12. OTHER CURRENT ASSETS

	2016	2015
	$	$
Prepayments	92,086	31,967
Accrued income	35,813	25,098
Deposits and bonds	7,735	7,686
	135,634	**64,751**

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

13. NON-CURRENT ASSETS

Carrying Values

	Cost	Accumulated depreciation / impairment	Net carrying value
2016	$	$	$
Property, plant and equipment			
R & D equipment	25,011	(23,764)	1,247
Computer equipment	159,236	(127,556)	31,680
Field equipment	58,747	(58,747)	-
Leasehold improvements	130,228	(97,587)	32,641
Office furniture	165,091	(80,130)	84,961
Plant and equipment	82,079	(81,328)	752
	620,392	**(469,112)**	**151,281**
Intangible Assets			
Goodwill	44,578	(44,578)	-
Total non-current assets	**664,971**	**(513,690)**	**151,281**
2015			
Property, plant and equipment			
R & D equipment	25,011	(22,004)	3,007
Computer equipment	127,935	(114,317)	13,617
Field equipment	58,747	(58,747)	-
Leasehold improvements	92,310	(92,310)	-
Office furniture	76,581	(66,891)	9,690
Plant and equipment	81,054	(81,054)	-
	461,638	**(435,323)**	**26,314**
Intangible Assets			
Goodwill	44,578	(13,621)	30,957
Total non-current assets	**506,216**	**(448,945)**	**57,271**

Reconciliations

2016	Opening net carrying value $	Additions $	Disposals $	Depreciation / Impairment $	Exchange movements $	Closing net carrying value $
R & D equipment	3,007	-	-	(1,760)	-	1,247
Computer equipment	13,617	31,301	-	(13,239)	-	31,680
Leasehold improvements	-	37,918	-	(5,277)	-	32,641
Office furniture	9,690	88,510	-	(13,239)	-	84,961
Plant and equipment	-	1,025	-	(273)	-	752
Goodwill	30,957	-	-	(30,957)	-	-
	57,271	**158,755**	**-**	**(64,745)**	**-**	**151,281**
2015						
R & D equipment	3,433	1,400	-	(1,827)	-	3,007
Computer equipment	1,216	16,094	-	(3,693)	-	13,617
Office furniture	1,038	10,941	-	(2,289)	-	9,690
Goodwill	-	44,578	-	(13,621)	-	30,957
	5,687	**73,014**	**-**	**(21,430)**	**-**	**57,271**

14. CURRENT TRADE AND OTHER PAYABLES AND PROVISIONS

	2016 $	2015 $
A. Unsecured trade and other payables		
Trade creditors	217,111	161,522
Other payables and accruals	215,028	168,252
GST payable	15,858	13,772
	447,997	**343,546**
B. Provisions		
Annual leave	96,068	49,541
Long service leave	18,207	-
	114,275	**49,541**

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

15. CURRENT INTEREST BEARING PAYABLES

	2016	2015
	$	$
Unsecured loans from Directors and related entities	1,015,000	2,515,000
	1,015,000	**2,515,000**

The carrying amounts of the Group's current interest bearing payables are a reasonable approximation of their fair values. Interest on loans from Directors and related entities is charged at 5.45% per annum (ATO benchmark rates).

16. NON-CURRENT PROVISIONS

	2016	2015
	$	$
Long service leave	10,764	22,876
	10,764	**22,876**

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

17. CONTRIBUTED EQUITY

	2016	2015
	$	$
Share Capital		
154,428,722 fully paid ordinary shares - no par value (2015: 151,428,722)	39,995,236	38,495,236
Fully paid ordinary shares carry one vote per share and carry the right to dividends.		
Other contributed equity		
Consideration for issue of share options	104,876	104,876
	40,100,112	**38,600,112**

	2016	2016	2015	2015
Movement in ordinary share capital of Aeris Environmental Ltd	Number of shares	$	Number of shares	$
Balance at beginning of year	151,428,722	38,495,236	117,746,704	28,362,632
Shares issued during year				
Shares issued to Directors towards repayment of their loan	3,000,000	1,500,000	-	-
Share placement	-	-	32,792,018	10,025,444
Other share issues	-	-	890,000	187,560
	154,428,722	39,995,236	151,428,722	38,575,636
Transaction costs relating to share issues	-	-	-	(80,400)
Balance at end of year	154,428,722	39,995,236	151,428,722	38,495,236

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

18. OPTIONS

2016 Unlisted	Grant Date	Expiry Date	Exercise Price	Number on issue 30 June 2015	Granted during year	Lapsed during year	Exercised during year	Number on issue 30 June 2016
*	07-Mar-11	09-Jan-16	0.25	150,000	-	(150,000)	-	-
	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
**	31-Jul-14	31-Jul-19	0.20	500,000	-	-	-	500,000
*	08-Jan-15	31-Jul-16	0.31	500,000	-	-	-	500,000
Total options on issue				**1,470,000**	**-**	**(200,000)**	**-**	**1,270,000**

2015 Unlisted	Grant Date	Expiry Date	Exercise Price	Number on issue 30 June 2014	Granted during year	Lapsed during year	Exercised during year	Number on issue 30 June 2015
*	07-Mar-11	09-Jan-16	0.25	275,000	-	-	(125,000)	150,000
	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
**	31-Jul-14	31-Jul-19	0.20	-	500,000	-	-	500,000
*	08-Jan-15	31-Jul-16	0.31	-	500,000	-	-	500,000
Total options on issue				**595,000**	**1,000,000**	**-**	**(125,000)**	**1,470,000**

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

** Share options issued as consideration for business combinations.

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

19. RESERVES

	2016	2015
	$	$
Foreign currency translation reserve	(82,565)	(75,755)
Share based payments reserve	1,263,274	1,262,336
	1,180,709	**1,186,581**
Foreign currency translation reserve		
Balance at beginning of financial year	(75,755)	(55,458)
Foreign currency translation difference	(6,810)	(20,298)
Balance at end of financial year	**(82,565)**	**(75,755)**

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.

	2016	2015
	$	$
Share based payments reserve		
Balance at beginning of financial year	1,262,336	1,216,988
Share based payments during the year allocated to:		
Employees and consultant	938	770
Business Combinations	-	44,578
Balance at end of financial year	**1,263,274**	**1,262,336**

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

20. ACCUMULATED LOSSES

	2016	2015
	$	$
Balance at beginning of financial year	(33,749,830)	(31,732,918)
Net loss for year	(2,062,727)	(2,016,912)
Balance at end of financial year	**(35,812,557)**	**(33,749,830)**

21. NON-CONTROLLING INTERESTS

	2016	2015
	$	$
Balance at beginning of financial year	-	-
12500 shares held by non-controlling interest in Aeris Cleantech Pte Ltd, Singapore	12,461	-
Net loss for year	(3,204)	-
Balance at end of financial year	**9,257**	**-**

22. PARTICULARS RELATING TO CONTROLLED ENTITIES

Name of entity	Country of incorporation	Ownership interest	Ownership interest
		2016	2015
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
Aeris Cleantech Pte Ltd	Singapore	70	N/A
Aeris Cleantech Europe Ltd	Malta	100	N/A

23. COMMITMENTS FOR EXPENDITURE

Lease commitments

	2016	2015
Operating leases	**$**	**$**
Commitments on operating leases that relate to below office facilities:		
Registered office in Sydney - up to 1 year	57,631	-
Registered office in Sydney - 1 to 5 years	57,631	-
Branch office in Brisbane - up to 1 year	33,945	-
	149,207	**-**

24. KEY MANAGEMENT PERSONNEL DISCLOSURES

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

Maurie Stang
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:

	2016	2015
	$	**$**
Short-term employee benefits	248,670	75,382
Post-employment benefits	18,573	-
Share-based payments	925	617
	268,168	**75,999**

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

25. SHARE BASED PAYMENTS

a. Recognised share-based payment expenses

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

	2016	2015
	$	$
Employee Share Option Plan		
Employees and consultant	938	770
Business Combinations	-	44,578
Total amount arising from share-based payment transactions	**938**	**45,348**

b. Details of share-based payment plan

The share-based payment plan is described in the remuneration report in Director's Report. There have been no cancellations or modifications to the plan during 2015 and 2016.

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 2016 is 1.33 years (2015: 2.10 years).

The range of exercise prices for options outstanding at the end of the year was $0.17 to $0.31 (2015: $0.15 to $0.31)

No options were issued during 2016 financial year.

The following table shows the inputs to the Black & Scholes model in respect of options granted during 2015 financial year.

	Options issued	
	For Business Combinations	To Key Management Personnel
Value of Underlying Stock	0.105	0.282
Exercise Price	0.200	0.310
Dividend Yield	0.00%	0.00%
Volatility (per Year)	139.46%	5.70%
Risk free rate	3.00%	3.00%
Maturity	31/07/2019	31/07/2016
Pricing Date	31/07/2014	8/01/2015
Value of Option	0.0892	0.0031

26. RELATED PARTY DISCLOSURES

a. Parent Entity

Aeris Environmental Ltd is the parent entity.

b. Subsidiaries

Interests in subsidiaries are set out in note 22.

c. Key management personnel

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

d. Transactions with Directors and Director related entities

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

27. FINANCIAL INSTRUMENTS DISCLOSURES

a. Capital

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

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

b. Financial instrument risk exposure and management

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

Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

c. Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risks arise, are as follows:
cash at bank;
other receivables;
deposits and bonds; and
trade and other payables.

d. General objectives, policies and processes

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

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

i. *Credit risk*

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

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

	2016	2015
	$	$
Without external credit rating		
Trade receivables	1,120,848	422,540
R&D tax offset rebate receivable	351,960	-
Deposits and bonds	7,735	7,686
With external credit rating (Moody's)		
Deposits with Bankwest (credit rating Aa2)	5,356,156	8,451,471
Deposits with Wells Fargo, USA (credit rating Aa1)	2,851	7,139
Deposits with ANZ Bank (credit rating Aa2)	56,657	196,964
	6,896,207	**9,085,800**

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.

	Cash Flows	< 6 mths	6-12 mths	1-3 years	> 3 years
	$	$	$	$	$
Maturity analysis - 2016					
Financial assets					
Cash and cash equivalents	5,463,779	5,463,123	657	-	-
Other receivables	1,192,045	1,192,045	-	-	-
Security deposits	7,735	-	-	-	7,735
TOTAL	**6,663,559**	**6,655,168**	**657**	**-**	**7,735**
Financial liabilities					
Trade Creditors	217,111	217,111	-	-	-
Other payables and accruals	345,161	345,161	-	-	-
Loans	1,070,318	27,659	1,042,659	-	-
TOTAL	**1,632,589**	**589,931**	**1,042,659**	**-**	**-**
NET MATURITY	**5,030,970**	**6,065,237**	**(1,042,002)**	**-**	**7,735**

	Cash Flows	< 6 mths	6-12 mths	1-3 years	> 3 years
Maturity analysis - 2015					
Financial assets					
Cash and cash equivalents	3,886,543	3,883,658	2,885	-	-
Term deposits	4,848,132	4,848,132			
Other receivables	143,467	143,467	-	-	-
Security deposits	7,686	-	-	-	7,686
TOTAL	**8,885,828**	**8,875,257**	**2,885**	**-**	**7,686**
Financial liabilities					
Trade Creditors	161,522	161,522	-	-	-
Other payables and accruals	182,025	182,025	-	-	-
Loans	2,589,821	1,089,821	-	-	1,500,000
TOTAL	**2,933,367**	**1,433,367**	**-**	**-**	**1,500,000**
NET MATURITY	**5,952,460**	**7,441,889**	**2,885**	**-**	**(1,492,314)**

27. FINANCIAL INSTRUMENTS DISCLOSURES

iii. Market risk

a. *Interest rate risk*

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

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

	Note	Weighted Average Interest Rates	Floating Interest Rates	Fixed Interest Rates	Non-Interest Bearing	Total
2016						
Financial assets						
Cash and cash equivalents	9	2.00%	6,156	-	59,508	65,664
Term deposits	9	2.70%	-	5,350,000	-	5,350,000
Receivables	10	0.00%	-	-	1,192,045	1,192,045
Total Assets			**6,156**	**5,350,000**	**1,251,554**	**6,607,710**
Financial liabilities						
Payables	14	0.00%	-	-	447,997	447,997
Loans	15	5.45%	-	1,015,000	-	1,015,000
Total Liabilities			**-**	**1,015,000**	**447,997**	**1,462,997**
Net financial assets (liabilities)			**6,156**	**4,335,000**	**803,557**	**5,144,713**
2015						
Financial assets						
Cash and cash equivalents	9	2.50%	6,165	-	199,409	205,574
Term deposits	9	2.90%	-	8,450,000	-	8,450,000
Receivables	10	0.00%	-	-	143,467	143,467
Total Assets			**6,165**	**8,450,000**	**342,876**	**8,799,040**
Financial liabilities						
Payables	14	0.00%	-	-	343,546	343,546
Loans	15	5.95%	-	2,515,000	-	2,515,000
Total Liabilities			**-**	**2,515,000**	**343,546**	**2,858,546**
Net financial assets (liabilities)			**6,165**	**5,935,000**	**(671)**	**5,940,494**

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

Sensitivity analysis	Carrying amount	+3% interest rate Profit & Loss	-3% interest rate Profit & Loss
2016			
Deposits on call	6,156	185	(185)
	6,156	185	(185)
Tax charge of 30%		(55)	55
Post tax profit increase / (decrease)		129	(129)

Sensitivity analysis	Carrying amount	+3% interest rate Profit & Loss	-3% interest rate Profit & Loss
2015			
Deposits on call	6,165	185	(185)
	6,165	185	(185)
Tax charge of 30%		(55)	55
Post tax profit increase / (decrease)		129	(129)

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:

	2016	2015	2016	2015	2016	2015
	US$	US$	SGD	SGD	Euro	Euro
Cash at bank	2,061	5,465	-	-	5,000	-
Trade and other receivables	800	800	-	-	-	-
Trade and other payables	(1,336)	(3,336)	10,700	-	-	-
Net Exposure	**1,525**	**2,929**	**10,700**	**-**	**5,000**	**-**

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.

27. FINANCIAL INSTRUMENTS DISCLOSURES

Sensitivity analysis - US$	Carrying amount	+10% USD/AUD Profit & Loss	-10% USD/AUD Profit & Loss
2016	**US$**	**AUD$**	**AUD$**
Cash at bank	2,061	(285)	285
Trade and other receivables	800	(111)	111
Trade and other payables	(1,336)	185	(185)
	1,525	**(211)**	**211**
Tax charge of 30%		63	(63)
Post tax profit increase / (decrease)		(148)	148

Sensitivity analysis - US$	Carrying amount	+10% USD/AUD Profit & Loss	-10% USD/AUD Profit & Loss
2015	**US$**	**AUD$**	**AUD$**
Cash at bank	5,465	(714)	714
Trade and other receivables	800	(105)	105
Trade and other payables	(3,336)	436	(436)
	2,929	**(383)**	**383**
Tax charge of 30%		115	(115)
Post tax profit increase / (decrease)		(268)	268

Sensitivity analysis - SGD	Carrying amount	+10% SGD/AUD Profit & Loss	-10% SGD/AUD Profit & Loss
2016	**SGD**	**AUD$**	**AUD$**
Cash at bank	-	-	-
Trade and other receivables	-	-	-
Trade and other payables	10,700	(1,480)	1,480
	10,700	**(1,480)**	**1,480**
Tax charge of 30%		444	(444)
Post tax profit increase / (decrease)		(1,036)	1,036

Sensitivity analysis - Euro	Carrying amount	+10% Euro/AUD Profit & Loss	-10% Euro/AUD Profit & Loss
2016	**Euro**	**AUD$**	**AUD$**
Cash at bank	5,000	(692)	692
Trade and other receivables	-	-	-
Trade and other payables	-	-	-
	5,000	**(692)**	**692**
Tax charge of 30%		207	(207)
Post tax profit increase / (decrease)		(484)	484

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.

28. CONTINGENT LIABILITIES

There are no contingent liabilities of the company or the Group other than commitments disclosed in note 23 (2015: NIL).

29. ADDITIONAL COMPANY INFORMATION

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

Principal registered office and principal place of business
5/26-34 Dunning Avenue
ROSEBERY
NSW 2018

30. SUBSEQUENT EVENTS

There have been no matters or circumstances, which have arisen since 30 June 2016 that have significantly affected or may significantly affect:

a. the operations, in financial years subsequent to 30 June 2016, of the consolidated entity; or

b. the results of those operations;

c. the state of affairs, in the financial years subsequent to 30 June 2016, of the consolidated entity.

31. OPERATING SEGMENTS

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

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

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

a. Australia - Sales and service on account of Australian operations

b. International - Sales & service on account of international operations

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

Intersegment receivables, payables and loans
Intersegment loans are initially recognised at the consideration received & are eliminated on consolidation.

Major Customer
The Group supplies to two of its major customers, through Australian sales segment, (who individually amount to 10% or more of its revenue) that combined account for 56% of external revenue (2015: Two major customers combined account for 64%).

During the year ended 30 June 2016 the most significant client accounts for approximately 45% (2015: 26%) of the consolidated entity's external revenue through Australian Sales operating segment.

Operating segment information of the consolidated entity

	Australia	International	Intersegment eliminations	Consolidated
2016	$	$	$	$
Revenue				
Sales	1,378,086	-	-	1,378,086
Other Income	583,402	-	-	583,402
Total Revenue	1,961,488	-	-	1,961,488
Expenses				
Cost of goods sold	350,272	-	-	350,272
Operating expenses	4,088,856	46,398	(34,912)	4,100,342
Total Expenses	4,439,128	46,398	(34,912)	4,450,614
Loss before tax	**(2,477,640)**	**(46,398)**	**34,912**	**(2,489,126)**

	Australia	International	Intersegment eliminations	Consolidated
2015	$	$	$	$
Revenue				
Sales	800,886	-	-	800,886
Other Income	73,503	-	-	73,503
Total Revenue	874,389	-	-	874,389
Expenses				
Cost of goods sold	239,884	-	-	239,884
Operating expenses	2,671,463	31,756	(30,573)	2,672,646
Total Expenses	2,911,347	31,756	(30,573)	2,912,530
Loss before tax	**(2,036,958)**	**(31,756)**	**30,573**	**(2,038,141)**

	Assets		Liabilities	
	2016	2015	2016	2015
Segment assets and liabilities	$	$	$	$
Australia	7,177,670	9,051,451	3,400,066	4,720,339
International	62,834	9,010	2,021,036	1,868,446
Total	7,240,504	9,060,461	5,421,102	6,588,785
Intersegment elimination	(174,946)	(92,635)	(3,833,067)	(3,657,824)
Consolidated	7,065,558	8,967,826	1,588,035	2,930,961

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

	2016	2015
	$	$
Current Assets	6,977,382	8,990,097
Total Assets	7,173,701	9,047,379
Current Liabilities	565,508	2,877,905
Total Liabilities	1,580,508	2,900,781
Issued Capital (net of costs)	40,100,111	38,600,111
Accumulated losses	(35,770,192)	(33,715,849)
Share-based payment reserve	1,263,274	1,262,336
	5,593,193	**6,146,598**
Net loss for the period	(2,054,344)	(2,015,576)
Total comprehensive loss for the period	(2,061,155)	(2,035,874)
Contractual Obligations / Commitments (Refer Note 23)	-	-

33. NOTES TO CASH FLOW STATEMENTS

a. Reconciliation of cash

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

	2016	2015
	$	$
Cash at bank and on hand	59,508	199,409
Term Deposits	5,350,000	3,650,000
Deposits on call	6,156	6,165
	5,415,664	**3,855,574**

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

	2016	2015
	$	$
Operating loss after income tax	(2,065,931)	(2,016,912)
Non cash/non-operating items included in profit and loss		
Depreciation, amortisation and impairment	64,745	21,430
Provision for doubtful debts	-	12,382
Share based payments	938	32,496
Changes in assets and liabilities		
(Increase) / decrease in receivables	(1,048,579)	6,529
(Increase) / decrease in inventory	(124,172)	(24,869)
(Increase) / decrease in other assets	(58,223)	(24,646)
Increase / (decrease) in trade creditors	55,393	9,897
Increase / (decrease) in other creditors and accruals	48,861	51,669
Increase / (decrease) in employee entitlement expense	52,622	1,851
Net cash used in operating activities	**(3,074,345)**	**(1,930,174)**

34. BUSINESS COMBINATION

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.

The Company acquired Smartcool because it significantly enlarges the range and scope of products and services, in the Australian Sales segment, that can be offered to its clients.

	Cost
	$
Assets acquired	
Property, plant and equipment	10,941
Goodwill	44,578
	55,519
Purchase consideration	
Share Options	44,578
Cash paid	10,941
	55,519

The goodwill of $44,578 comprised the value of expected synergies and distribution rights arising from the acquisition, which is not separately recognised. Goodwill is allocated entirely to the Australian Sales segment.

Goodwill is tested for impairment annually as at 30 June and when circumstances indicate that the carrying value may be impaired. Accordingly goodwill was written off as impaired during the 2016 financial year.

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 21 to 60, 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 2016 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

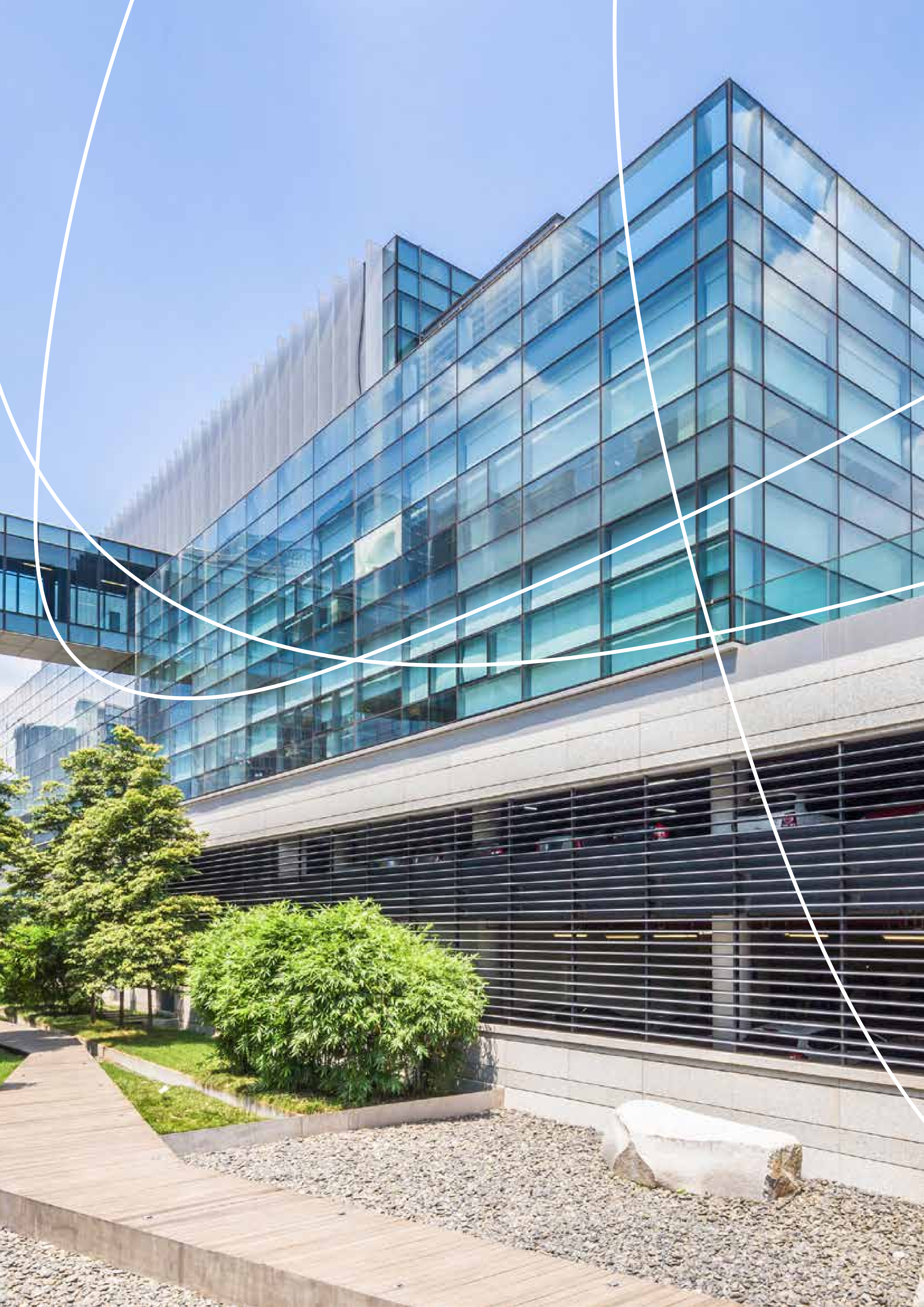
c. There are reasonable grounds to believe that the company and the consolidated entity will be able to pay its debts as and when they become due and payable;

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 2016.

On behalf of the Board of Directors

M STANG
Director

Sydney, 30 September 2016



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INDEPENDENT AUDITOR'S REPORT

To the members of Aeris Environmental Ltd

Report on the Financial Report

We have audited the accompanying financial report of Aeris Environmental Ltd (the Company), which comprises the consolidated statement of financial position as at 30 June 2016, 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 for 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 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 entity'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 entity's internal control. 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*.

Opinion

In our opinion:

(a) the financial report of Aeris Environmental Ltd 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 2016 and its performance for the year ended on that date; and

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

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 11 to 18 of the directors' report for the year ended 30 June 2016. 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.

Opinion

In our opinion, the Remuneration Report of Aeris Environmental Ltd for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

UHY Haines Norton

M. D. Nicholaeff
Partner
Sydney

UHY Haines Norton
Chartered Accountants

30 September 2016

AUSTRALIAN SECURITIES EXCHANGE ADDITIONAL INFORMATION

Additional information required by the Australian Securities Exchange (ASX) Listing Rule 4.10, and not disclosed elsewhere in this Annual Report, is detailed below. This information was prepared based on the Company's Share Registry information, its option register, ASX releases and the Company's Constitution.

SHAREHOLDING INFORMATION

Distribution of Shareholders

Analysis of the quoted fully paid ordinary shares by holding as at 31 August 2016:

Spread of Holdings	Number of Holders	Ordinary shares	% of Total Issue Capital
1 – 1,000	40	23,891	0.02
1,001 – 5,000	140	401,836	0.26
5,001 – 10,000	128	1,103,787	0.71
10,001 – 50,000	232	6,065,027	3.91
50,001 – 100,000	71	5,772,284	3.73
100,001 – 500,000	92	22,330,964	14.41
500,001 – 1,000,000	14	9,326,247	6.02
1,000,001 and over	30	109,904,686	70.94
Total	**747**	**154,928,722**	**100.00**

Based on the market price at 31 August 2016 there were 43 shareholders with less than a marketable parcel of $500 worth of shares at a share price of $0.445. There are no restricted securities on issue.

Statement of Shareholdings as at 14 September 2016

The names of the 20 largest holders of fully paid ordinary shares are listed below:

Rank	Shareholder	Number of Shares	% Holding
1	Mr Maurie Stang	18,779,749	12.12
2	Mr Bernard Stang	15,331,609	9.89
3	Link Traders (Aust) Pty Ltd	14,605,400	9.43
4	Mr Steven Kritzler ‹S Kritzler Family A/C›	8,331,609	5.38
5	Pulitano Family Superannuation Pty Ltd ‹Pulitano Family SF A/C›	5,564,447	3.59
6	HSBC Custody Nominees (Australia) Limited – A/C 2	5,243,500	3.38
7	J P Morgan Nominees Australia Limited	5,015,251	3.24
8	Australian Shareholder Nominees Pty Ltd	4,543,144	2.93
9	National Nominees Limited	4,365,532	2.82
10	HSBC Custody Nominees (Australia) Limited	2,713,828	1.75
11	Henderson International Pty Ltd ‹Henderson Super Fund A/C›	2,474,714	1.59
12	Helensleigh Pty Ltd ‹Helensleigh Staff S/F A/C›	2,226,827	1.44
13	BNP Paribas Noms Pty Ltd ‹DRP›	1,938,762	1.25
14	Citicorp Nominees Pty Limited	1,900,981	1.23
15	Wakil Family Group Pty Ltd ‹Ron Ton Fashion P/L R/F A/C›	1,793,300	1.16
16	Mr Joshua Aaron Ehrlich	1,700,000	1.10
17	Towns Corporation Pty Ltd ‹PAE Family A/C›	1,686,216	1.09
18	Benlee Company Pty Ltd ‹The Benlee A/C›	1,525,210	0.98
19	Hillridge Pty Ltd	1,508,300	0.98
20	Jamber Investments Pty Ltd ‹Amber Schwartz Family A/C›	1,500,000	0.97
	Total of Top 20 Holdings	**102,748,379**	**66.32**
	Other Holdings	**52,180,343**	**33.68**
	Total Ordinary Shares	**154,928,722**	**100.00**

AUSTRALIAN SECURITIES EXCHANGE ADDITIONAL INFORMATION

UNQUOTED EQUITY SECURITIES

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

Number	Class of Options	Number of Holders
250,000	Options held by Peter Bush, which expire on 17 November 2016 and have an exercise price of 16.5 cents.	1
20,000	Options that expire on 23 February 2017 and have an exercise price of 22 cents.	1
500,000	250,000 Options held by each of Chris Rogerson and Scott Gregson, which expire on 31 July 2019 and have an exercise price of 20 cents	2
770,000	**Total Options on Issue**	**4**

VOTING RIGHTS

At general meetings of the Company, all fully paid ordinary shares carry one vote per share without restriction. On a show of hands, every member present at a general such meetings, or by proxy, shall have one vote and, upon a poll, each share shall have one vote. Option holders have no voting rights until the options are exercised.

SUBSTANTIAL SHAREHOLDERS

Substantial shareholders in Aeris Environmental Ltd, based on Substantial Shareholder Notices received by the ASX and the Company, are as follows:

Name	Number	Class	Voting Power
Mr Maurie Stang	19,816,267	Ordinary fully paid shares	12.80%
Mr Bernard Stang	15,928,109	Ordinary fully paid shares	10.30%
Link Traders (Aust) Pty Ltd Link Enterprises International Pty Ltd ‹Link Superannuation Fund A/C› Link Enterprises International Pty Ltd ‹Luca Lavigne A/C›	13,659,371	Ordinary fully paid shares	9.02%
Mr Steven Kritzler	8,331,609	Ordinary fully paid shares	5.40%

ON-MARKET BUY-BACK

There is no current on-market buy-back of shares in the Company.

CORPORATE DIRECTORY

Aeris Environmental Ltd

ACN: 093 977 336
ABN: 19 093 977 336

Directors

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

Company Secretary

Robert Waring

Registered and Principal Office

Unit 5, 26-34 Dunning Avenue
Rosebery NSW 2018 Australia

Telephone: +61 2 8344 1315
Facsimile: +61 2 9697 0944
Email: info@aeris.com.au
Website: www.aeris.com.au

Share Registry

Computershare Investor Services Pty Ltd
Yarra Falls, 452 Johnston Street, Abbotsford VIC 3067
GPO Box 2975, Melbourne VIC 3001 Australia

Telephone: +61 3 9415 4000
Telephone: 1300 850 505 (within Australia)
Facsimile: +61 3 9473 2500
Website: www.computershare.com
Investor Link: www.investorcentre.com/contact

Auditor

UHY Haines Norton Sydney
Level 11, 1 York Street, Sydney NSW 2000
GPO Box 4137, Sydney NSW 2001

Telephone: + 61 2 9256 6600
Website: www.uhyhnsydney.com.au

Stock Exchange

The Company's fully paid ordinary shares are quoted on the official list of the Australian Securities Exchange (ASX Limited).

ASX Code

AEI

AERIS ENVIRONMENTAL LTD

ACN 093977336