

Appendix 4E

Preliminary final report for the financial year ended 30 June 2021

Name of entity

AERIS ENVIRONMENTAL LTD ABN: 19 093 977 336**Reporting period:** 30 June 2021**Previous period:** 30 June 2020**Results for announcement to the market**

\$A'000				
Revenues from ordinary activities	down	50%	to	7,336,311
Profit from ordinary activities after tax attributable to	down	396%	to	(5,867,178)
Profit for the period attributable to owners of Aeris Environmental Ltd	down	396%	to	(5,867,178)

Dividends (distributions)	Amount per security	Franked amount per security
	Nil ¢	
Final dividend	Nil ¢	Nil ¢
Previous corresponding period	Nil ¢	Nil ¢

Brief explanation of the above

The Group has recorded an operating loss (after tax) of \$5,867,178 for the year ended 30 June 2021 (2020 Profit: \$1,982,941) and has net assets of \$13,471,369 as at 30 June 2021 (2020: \$19,308,328). The operating cash burn rate for the financial year ended 30 June 2021 was \$1,279,937 (2020: \$2,050,960). The cash balance as at 30 June 2021 was \$11,485,616 (2020: \$12,949,339).

This Appendix 4E should be read in conjunction with the Half Year Financial Report of the Group as at 31 December 2020. It is also recommended that the Appendix 4E be considered together with any public announcements made by the Group since commencement of the 2020-21 financial year in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

NTA backing

Net tangible asset backing per ordinary share

30-Jun-21
cents
5.52

30-Jun-20
cents
7.96
Events occurring after Balance Date

No matter or circumstance has arisen since 30 June 2021 that has significantly affected or may significantly affect the consolidated entities' operations, the results of these operations, or the consolidated entities' state of affairs in future financial years.

Details of entities over which control has been gained or lost during the period

Not Applicable

Foreign Entities details

Not Applicable


Dividends

No dividends were paid or proposed during the financial year.

Audit or Review details

This report is based on accounts which are in process of being audited.

Sign here:


Date: **31 August 2021**

(Director/Company Secretary)

Print name: **Robert J Waring**

Aeris Environmental Ltd

Commentary on Operations

30 August 2021

Aeris Environmental Ltd (ASX:AEI) (Aeris or the Company) today releases its 2020-21 financial year results in the Preliminary Final Report (Appendix 4E).

Since the commencement of the global COVID-19 pandemic, the Company has focused many of its activities on supporting customers, distributors and, most particularly, health authorities in Australia with their most urgent needs. The pandemic created significant supply chain challenges for Aeris and unprecedented demand for trusted disinfection technologies during 2020 has been followed by significant oversupply in 2021. The Company is currently completing a comprehensive strategic review of its activities, priorities and business model going forward. The review is focused on the commercialisation and sales of Aeris' core differentiated product platforms, and new product developments ready for market entry. In line with its recovery agenda and to underpin this, the Company has recently made several senior appointments in sales, marketing and channel management, together with engaging consulting services to direct the Company's concentration on sales growth. Specifically, Aeris is now focusing on Australia, China and a number of international markets, and verticals. In parallel it is putting in place new trading terms with the Company's sales and distribution partners with what Aeris believes is a significantly improved business model for the Company and its partners.

Aeris has experienced a number of commercial issues arising from the priorities of the last financial (pandemic) year. It is now actively dealing with the legacy of operating in an unprecedented environment and recognising these impacts in an effort to refocus on its growth objectives.

The Company is now investing additional resources and focusing on its distribution channels and partners by providing more support and commercial benefits to its partners against new growth objectives. This is aligned with a value proposition of making the built environment safer, more energy efficient and delivering on a broader spectrum of customers' needs.

Finance

Annual revenue for the 2020-21 financial year was \$7,130,684 (2020 - \$14,632,962). The Company made a loss before income tax of \$5,985,414 compared to a profit of \$1,413,370 in the prior year. The loss results from the problems associated with servicing markets during the pandemic, and a significant deterioration in Aeris' gross margin (40% in the 2020-21 financial year compared to 55% for the 2019-20 financial year), reflecting in large part the impact of the lower margin NSW Health business. The impact of further lockdowns and the Delta virus wave globally in the 2021-22 financial year, has had a significant effect on sales of a number of the Company's products and related market access. In accordance with this, the Company has now taken additional inventory provisions, notwithstanding its intention to actively market these products to address excess inventory. It is anticipated that with greater production efficiency, improved manufacturing and supply chain, lower raw material cost objectives and improved mix of product sales, higher margins will progressively be achieved.

The Company's cash receipts from customers for the year were \$11,367,172 compared to the previous year of \$14,600,592. As 30 June 2021 Aeris has net assets of \$13,471,369, compared to \$19,308,328 on 30 June 2020. Cash at 30 June 2021 was \$11,485,616 compared to \$12,949,339 at 30 June 2020. The net cash used in operating activities decreased by \$771,023. Balance sheet movements included a decrease in trade debtors of \$4,050,872.

Aeris Environmental Ltd

Commentary on Operations

North America

Aeris is focused on improving adoption and distribution of its heating, ventilation, and air-conditioning (HVAC) and environmental hygiene range in North America, together with the sale of its two products – AerisGuard Bioactive Filter Treatment and AerisGuard Bioactive Surface Treatment. Existing EPA approvals for their use in HVAC and refrigeration is to be incorporated into 'safe re-opening' plans for protecting HVAC filters and surfaces against the colonisation of bacteria, fungi and viruses, including COVID-19.

After the positive evaluation of Aeris Bioactive Filter Treatment on the bus fleet of The Milwaukee Transport Transit Services, Inc, the Company is now working with several municipal transport operators to target the use of product in its air filtration assets. Additionally, Aeris is focused on business development in sectors that are currently 're-opening', including retail and fast-food customers.

The Company has now received independent laboratory results for AerisGuard Bioactive Surface Treatment to cover additional organisms. This product will be positioned as a general-purpose surface disinfectant, with Aeris' regulatory consultants working to have the additional claims registered with the U.S. EPA (potentially allowing "COVID-19" kill claims, as well as being added to the EPA's List N for general purpose disinfectants).

China

Aeris is moving forward with new initiatives and distribution arrangements together with a number of new relationships in the important Chinese market. This includes assessing options for the production of certain products in China, with the aim of expanding the market opportunity, whilst enjoying potential savings in procurement of key raw materials in a more integrated manufacturing and supply chain. The Company is finalising the establishment of its wholly-owned foreign entity (WOFE). Aeris' WOFE in China will place Aeris in a strong position to develop strategic relationships, and joint ventures, in accordance with local ownership requirements, potentially opening both State and Federal business opportunities in China to the Company and its partners.

Middle East, India and Europe

Aeris continues to investigate a range of potential customers and distributors in Europe and the United Kingdom, and distribution partners in the Middle East and India. The efforts in re-opening various sections of the European and the Middle East economies now provide increasing interest in the spectrum of Aeris' offerings, making new distribution arrangements a priority.

Mould Remediation

Aeris has repositioned its mould remediation product range to build on its initial success with key projects in Australia. With clear branding, technical support and an enhanced distributor support programme, the Company's products are not only highly effective, but provide long-term protection against surfaces becoming re-contaminated with mould, which has been a major challenge for Aeris' customers and insurers. The Company has rationalised the activities of its project team with a greater focus on product sales and technical support for its international channel partners.

Corrosion Protection

The Company has a number of water-based, long-lasting anti-corrosion products. Aeris Corrosion Protection Services is evaluating focused on several original equipment manufacturers (OEMs) and downstream customer opportunities both in Australia and the USA, the Middle East and Asia. This business is now progressively re-opening as economic activity expands, particularly in the southern hemisphere. To-date, Aeris' expansion plans for the OEM corrosion business has been significantly impacted by the Company's inability to travel and to

Aeris Environmental Ltd

Commentary on Operations

conduct plant trials. Aeris has the potential to apply its novel coatings to multiple industrial and HVAC applications providing a growth opportunity as business activity and production levels increase over time.

Environmental Hygiene

In terms of ongoing COVID-19 compliance, both Aeris Defence and Aeris Active are dual active, offering rapid COVID-19 kill and extended residual protection across the full spectrum of surfaces, from high risk to social environments. The product's competitive position is enhanced by the 'one step, single application' even in dirty conditions providing the highest levels of compliance and 'gold standard' performance. Aeris has now expanded its senior sales and marketing resources to support the Company's commercial growth, with additional effort now being applied to the international launch of Aeris Defence. This product is available in a variety of presentations, including the ready-to-use and wipe format, and has been positioned with competitive pricing, ease-of-use and Australian Register of Therapeutic Goods listed surface disinfection claims, including COVID-19. Business development activities with several distributors and end customers has provided early feedback that Aeris Defence has a wide range of applications and attractive in-use features.

Environmental, Social and Governance (ESG)

Aeris continues to focus on the environmental impact of its products and services. Key to the Company's strategy is to provide our customers with both improved environmental outcomes and energy efficiency via our products and services. There is increasingly a strengthening commitment towards carbon neutrality and Aeris will be outlining in more detail in its Annual Report the initiatives it will be undertaking, both in its own right and in support of its customers' ESG objectives.

Outlook

The last year saw significant variability in market conditions, lockdowns and re-openings as a result of COVID-19 and its variants, which resulted in a significant deterioration in Aeris' business. The Company's strategic review is aimed at critically reviewing the Aeris' deployment of its resources and developing new plans to support its customers and distributors in meeting their needs and requirements for growth. As the world emerges from the greatest impact of the pandemic, the Company has a strong balance sheet and is net debt free. Supporting the Company's initiatives are a range of new products, registrations and customer driven product presentations. Aeris' expanded investment in China is targeting not only domestic opportunities in that market, but also the potential to export novel technologies, such as its new biocidal polymers, in collaboration with prospective partners who already access meaningful global markets.

The Company recognises a need to rebuild momentum from the challenges it experienced during the 2021 financial year, which have significantly impacted both its sales and operations. The full spectrum of the Company's activities is being evaluated as part of the current and comprehensive strategic review. Many changes and improvements are now being implemented, further supported by the significant investments that Aeris has in train across products, regulatory approvals and an expanded team and capability.

Aeris Environmental Ltd

AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

	Note	2021 \$	2020 \$
Continuing Operations			
Revenue	2	7,130,684	14,632,962
Cost of sales		(4,375,528)	(6,634,623)
Gross profit		2,755,156	7,998,339
Other revenue	2	205,627	36,697
Administration expenses		(1,875,021)	(1,547,040)
Depreciation and amortisation expense	3	(132,552)	(134,379)
Distribution expense		(528,559)	(493,700)
Employee benefits expense	3	(3,148,284)	(2,497,037)
Financial expenses	3	(56,409)	(38,178)
Impairment expense	3	(1,462,697)	(135,781)
Research and development and patent expense	3	(812,429)	(572,602)
Occupancy expenses	3	(313,894)	(249,245)
Sales, Marketing and Travel expenses		(616,352)	(953,704)
Profit (Loss) before income tax from continuing operations		(5,985,414)	1,413,370
Income tax benefit	4a	118,236	569,571
Net profit (loss) for the year		(5,867,178)	1,982,941
Other Comprehensive Income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences		(90,774)	(12,687)
Total comprehensive profit (loss) for the year, net of tax		<u>(5,957,952)</u>	<u>1,970,254</u>
Profit (loss) for the year attributable to:			
Owners of Aeris Environmental Ltd		(5,867,178)	1,982,941
Non-controlling interest	17	-	-
		<u>(5,867,178)</u>	<u>1,982,941</u>
Total comprehensive profit (loss) for the year attributable to:			
Owners of Aeris Environmental Ltd		(5,957,952)	1,970,254
Non-controlling interest	17	-	-
		<u>(5,957,952)</u>	<u>1,970,254</u>
Earnings per share	5		
Basic earnings (loss) per share (cents per share)			
Earnings (loss) from continuing operations		(2.41)	0.90
Diluted earnings (loss) per share (cents per share)			
Earnings (loss) from continuing operations		(2.41)	0.89

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

Aeris Environmental Ltd

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

	Note	2021 \$	2020 \$
CURRENT ASSETS			
Cash and cash equivalents	7	11,485,616	12,949,339
Trade and other receivables	8A	1,485,009	5,535,881
Inventories	9	2,811,899	3,486,862
Other current assets	10	367,022	262,034
TOTAL CURRENT ASSETS		16,149,546	22,234,116
NON-CURRENT ASSETS			
Trade and other receivables	8B	-	3,945
Right-of-use assets	11	295,036	375,501
Property, plant and equipment	11	106,018	65,359
TOTAL NON-CURRENT ASSETS		401,054	444,805
TOTAL ASSETS		16,550,600	22,678,921
CURRENT LIABILITIES			
Trade and other payables	12A	2,337,692	2,656,871
Lease liabilities	12B	91,225	88,568
Provisions	12C	388,668	291,964
TOTAL CURRENT LIABILITIES		2,817,585	3,037,403
NON-CURRENT LIABILITIES			
Lease Liabilities	13B	227,113	301,488
Provisions	13A	34,533	31,702
TOTAL NON-CURRENT LIABILITIES		261,646	333,190
TOTAL LIABILITIES		3,079,231	3,370,593
NET ASSETS		13,471,369	19,308,328
EQUITY			
Contributed equity	14	62,430,276	62,195,687
Reserves	15	1,700,432	1,904,803
Accumulated losses	16	(50,663,024)	(44,795,847)
Non-controlling interest	17	3,685	3,685
TOTAL EQUITY		13,471,369	19,308,328

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

Aeris Environmental Ltd

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

	Equity	Reserves	Accumulated losses	Non-controlling interest	Total attributable to equity holders of the entity
	\$	\$	\$	\$	\$
Balance at 1 July 2019	50,195,854	2,144,073	(46,778,788)	3,685	5,564,824
Loss for the year	-	-	1,982,941	-	1,982,941
Other comprehensive income / (loss)	-	(12,687)	-	-	(12,687)
Total comprehensive loss for the year	-	(12,687)	1,982,941	-	1,970,254
<i>Transactions with owners in their capacity as owners:</i>					
Shares issued to Directors towards loan repayment	-	-	-	-	-
Shares issued to KMP	-	-	-	-	-
Share placement - Strategic Investors	12,040,000	-	-	-	12,040,000
Share Placement Plan	-	-	-	-	-
Shares issued against exercise of options and rights	57,533	-	-	-	57,533
Shares issued to consultants	489,300	-	-	-	489,300
Share issue cost	(587,000)	-	-	-	(587,000)
Movement in share-based payments reserve	-	(226,583)	-	-	(226,583)
Balance at 30 June 2020	62,195,687	1,904,803	(44,795,849)	3,685	19,308,328
Balance at 1 July 2020	62,195,687	1,904,803	(44,795,849)	3,685	19,308,328
Profit for the year	-	-	(5,867,178)	-	(5,867,178)
Other comprehensive income / (loss)	-	(90,774)	-	-	(90,774)
Total comprehensive profit (loss) for the year	-	(90,774)	(5,867,178)	-	(5,957,952)
<i>Transactions with owners in their capacity as owners:</i>					
Shares issued to Directors towards loan repayment	-	-	-	-	-
Shares issued to KMP	-	-	-	-	-
Share placement - Strategic Investors	-	-	-	-	-
Share Placement Plan	-	-	-	-	-
Shares issued against exercise of options and rights	145,589	-	-	-	145,589
Shares issued to consultants	89,000	-	-	-	89,000
Share issue cost	-	-	-	-	-
Movement in share-based payments reserve	-	(113,597)	-	-	(113,597)
Balance at 30 June 2021	62,430,276	1,700,432	(50,663,024)	3,685	13,471,369

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

Aeris Environmental Ltd

AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

	Note	2021 \$	2020 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)		11,367,172	14,600,592
Payments to suppliers and employees (inclusive of GST)		(13,484,135)	(16,671,310)
R&D tax offset rebate received		687,807	-
Interest and other income received		24,465	19,157
Government Grants		181,162	17,540
Interest and other financial cost		(56,409)	(16,939)
Net cash used in operating activities	21 (b)	(1,279,937)	(2,050,960)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(93,359)	(24,291)
Net cash used in investing activities		(93,359)	(24,291)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from shares issue		-	12,042,000
Share issue cost		-	(472,600)
Loan repayments		-	-
Loan borrowings		-	-
Net cash provided by financing activities		-	11,569,400
NET INCREASE IN CASH AND CASH EQUIVALENTS		(1,373,296)	9,494,149
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR		12,949,339	3,467,877
Effects of exchange rate changes on cash and cash equivalents		(90,426)	(12,687)
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	7	11,485,616	12,949,339

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Corporate information

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.

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 2021 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.

Going Concern

The Group has recorded an operating loss (after tax) of \$5,867,178 for the year ended 30 June 2021 (2020 Profit: \$1,982,941) and has net assets of \$13,471,369 as at 30 June 2021 (2020: \$19,308,328). The operating cash burn rate for the financial year ended 30 June 2021 was \$1,279,937 (2020: \$2,050,960). The cash balance as at 30 June 2021 was \$11,485,616 (2020: \$12,949,339).

Directors are of the opinion that this positive trend will continue and Company will have adequate resources to continue to be able to meet its obligations as and when they fall due. For this reason they continue to adopt the going concern basis in preparing the Annual Financial Report.

Statement of Compliance

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

New, revised or amending Accounting Standards and Interpretations adopted

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

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

Conceptual Framework for Financial Reporting (Conceptual Framework)

The consolidated entity has adopted the revised Conceptual Framework from 1 July 2020. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards, but it has not had a material impact on the consolidated entity's financial statements.

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.

Aeris Environmental Ltd
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

2. REVENUE	2021	2020
<i>Revenue</i>	\$	\$
Revenue from sales	6,054,152	12,576,309
Revenue from services	1,076,532	2,056,653
	<u>7,130,684</u>	<u>14,632,962</u>
<i>Other revenue</i>		
Financial income	5,587	9,180
Government Grants	181,162	17,540
Miscellaneous	18,878	9,976
	<u>205,627</u>	<u>36,697</u>
3. EXPENSES		
Profit (Loss) before income tax includes the following items of expense:		
<i>Depreciation and amortisation expense</i>		
Depreciation of leasehold assets	6,332	6,332
Depreciation of plant and equipment	126,219	128,047
Total depreciation and amortisation expense	<u>132,552</u>	<u>134,379</u>
<i>Employee benefit expenses</i>		
Base salary and fees	2,722,895	2,007,835
Superannuation & statutory oncosts	317,050	263,514
Share based payment	24,492	145,150
Other employee expenses	83,847	80,538
Total employee benefit expenses	<u>3,148,284</u>	<u>2,497,037</u>
<i>Financial expenses</i>		
Interest, bank fees and other financial expenses	56,409	38,178
	<u>56,409</u>	<u>38,178</u>
<i>Other expenses</i>		
Impairment of receivables	271,697	135,781
Impairment of inventory	1,191,000	-
Rental & occupancy expenses	313,894	249,245
Research and development and patent expenses	812,429	572,602
4. 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:		
Profit (Loss) for year	<u>(5,985,414)</u>	<u>1,413,370</u>
Income tax expense (benefit) calculated at 30%	(1,795,624)	424,011
R&D tax offset receivable	-	(569,571)
Temporary differences and tax losses not recognised	1,594,396	(467,555)
- Non deductible expenses		
- Share based payments	82,992	43,544
Income tax attributable to profit (loss)	<u>(118,236)</u>	<u>(569,571)</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

4. INCOME TAX (CONTINUED)

(b)	Deferred tax balances not recognised	2021	2020
	Calculated at 30% of not brought to account as assets or liabilities:	\$	\$
	Deferred tax assets		
	Tax losses		
	Revenue tax losses available for offset against future tax income	7,350,073	7,652,475
	Temporary differences		
	Provision for doubtful debts	99,000	51,000
	Provision for inventory impairment	327,525	-
	Provision for employee entitlements	116,380	97,100
	Difference between book and tax values of fixed assets	18,876	24,431
	Accruals	8,250	14,250
	Future lease obligations	6,408	4,366
		<u>576,439</u>	<u>191,147</u>
	Total deferred tax assets	<u>7,926,512</u>	<u>7,843,622</u>
	Deferred tax liabilities		
	Difference between book and tax values of fixed assets	-	-
	Total deferred tax liabilities	<u>-</u>	<u>-</u>
	Net deferred tax asset not recognised	<u>7,926,512</u>	<u>7,843,622</u>

(c)

Tax consolidation

(i) Relevance of tax consolidation to the consolidated entity

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

(ii) Method of measurement of tax amounts

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

(iii) Tax sharing agreements

There are no tax sharing or funding agreements in place.

(iv) Tax consolidation contributions

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

5. EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO THE ORDINARY EQUITY-HOLDERS OF THE COMPANY

	2021 \$	2020 \$
Basic earnings (loss) per share (cents per share)	(2.41)	0.90
Diluted earnings (loss) per share (cents per share)	(2.41)	0.89
Net profit (loss) used to calculate basic EPS	(5,867,178)	1,982,941
Net profit (loss) used to calculate diluted EPS	(5,867,178)	1,982,941
Weighted average number of ordinary shares used to calculate basic EPS	243,104,095	219,677,482
Convertible performance rights and share options	706,600	2,207,291
Weighted average number of ordinary shares used to calculate diluted EPS	243,810,695	221,884,773

6. AUDITORS' REMUNERATION

Remuneration of UHY Haines Norton for :		
Audit of the annual financial report	31,200	30,500
Review of the half yearly financial report	16,200	15,850
Other services	-	-
Total auditors remuneration	47,400	46,350

7. CASH AND CASH EQUIVALENTS

Cash at bank and on hand	906,654	2,375,477
Deposits on call	10,578,963	10,573,862
	11,485,616	12,949,339

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

8. TRADE AND OTHER RECEIVABLES

A Current trade and other receivables

Trade receivables	1,845,009	5,136,310
Less: Allowance for expected credit losses	(360,000)	(170,000)
R&D tax offset rebate receivable	-	569,571
	1,485,009	5,535,881

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

B Non-current trade and other receivables

Trade Receivables	-	3,945
Less: Allowance for expected credit losses	-	-
	-	3,945

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

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

C Allowance for expected credit losses

Less than 6 months overdue	-	-
More than 6 months overdue	360,000	170,000
Movements in provision for impairment of receivables		
Opening balance	170,000	785,123
Additional provisions recognised	190,000	170,000
Previous provisions written off	-	(785,123)
Foreign exchange difference and other adjustments	-	-
Closing balance	360,000	170,000

Amounts recognised in profit or loss

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

Impairment losses		
Individually impaired receivables	(81,697)	(34,660)
Previous provisions written back	-	68,879
Movement in provision for impairment	(190,000)	(170,000)
	(271,697)	(135,781)

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9. INVENTORIES

Inventories - at cost	2,811,899	3,486,862
	<u>2,811,899</u>	<u>3,486,862</u>

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

10. OTHER CURRENT ASSETS

Prepayments	351,751	218,493
Advance payment to suppliers	-	21,397
Accrued income	-	7,962
Deposits, bonds and other receivables	15,271	14,182
	<u>367,022</u>	<u>262,034</u>

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

11. NON-CURRENT ASSETS

Carrying Values

	Cost	Accumulated depreciation / impairment	Net carrying value
	\$	\$	\$
2021			
Property, plant and equipment			
R & D equipment	40,773	(26,062)	14,711
Computer equipment	277,094	(241,740)	35,354
Field equipment	58,747	(58,747)	-
Leasehold improvements	130,228	(129,247)	980
Office furniture	179,918	(175,080)	4,838
Plant and equipment	187,474	(137,340)	50,134
Right-of-use asset	455,966	(160,930)	295,036
	<u>1,330,201</u>	<u>(929,145)</u>	<u>401,055</u>
2020			
Property, plant and equipment			
R & D equipment	25,011	(25,011)	-
Computer equipment	252,985	(222,163)	30,822
Field equipment	58,747	(58,747)	-
Leasehold improvements	130,228	(122,915)	7,313
Office furniture	176,456	(165,642)	10,814
Plant and equipment	137,449	(121,039)	16,410
Right-of-use asset	455,966	(80,465)	375,501
	<u>1,236,842</u>	<u>(795,983)</u>	<u>440,860</u>

Reconciliations

	Opening net carrying value	Additions	Disposals	Depreciation / Impairment	Exchange movements	Closing net carrying value
	\$	\$	\$	\$	\$	\$
2021						
Computer equipment	30,822	24,109	-	(18,966)	(614)	35,351
Leasehold improvements	7,313	-	-	(6,332)	-	980
Office furniture	10,814	3,462	-	(9,438)	-	4,838
Plant and equipment	16,410	50,026	-	(16,301)	-	50,136
R&D Equipment	-	15,762	-	(1,051)	-	14,712
Right-of-use asset	375,501	-	-	(80,465)	-	295,036
	<u>440,860</u>	<u>93,359</u>	<u>-</u>	<u>(132,552)</u>	<u>(614)</u>	<u>401,055</u>
2020						
Computer equipment	27,192	19,372	-	(15,904)	162	30,822
Leasehold improvements	13,645	-	-	(6,332)	-	7,313
Office furniture	30,971	-	-	(20,157)	-	10,814
Plant and equipment	19,690	8,240	-	(11,520)	-	16,410
Right-of-use asset	-	455,966	-	(80,465)	-	375,501
	<u>91,498</u>	<u>483,578</u>	<u>-</u>	<u>(134,379)</u>	<u>162</u>	<u>440,860</u>

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12. CURRENT TRADE AND OTHER PAYABLES AND PROVISIONS

	2021	2020
	\$	\$
A Unsecured trade and other payables		
Trade creditors	1,683,461	2,270,461
Other payables and accruals	664,411	395,587
GST and PAYG payable	(10,180)	(9,177)
	<u>2,337,692</u>	<u>2,656,871</u>
B Lease liabilities	<u>91,225</u>	<u>88,568</u>
C Provisions		
Annual leave	354,645	266,193
Long service leave	34,024	25,771
	<u>388,668</u>	<u>291,964</u>

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

13. OTHER NON-CURRENT LIABILITIES AND PROVISIONS

A Provisions		
Long service leave	34,533	31,702
	<u>34,533</u>	<u>31,702</u>
B Lease liabilities	<u>227,113</u>	<u>301,488</u>

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

B Particulars relating to lease liabilities

The lease liabilities refers to office space leased in Brisbane. The Group follows AASB 16 for accounting of leases and resulting assets are disclosed as "Right-of-use Asset" in note 11. Current and non-current lease liability are disclosed in notes 12 and 13.

The financial statements shows the following amounts relating to leases:

	2021	2020
	\$	\$
Depreciation	80,465	80,465
Interest expense (included in finance cost)	16,850	20,079
Value of Right-of-Use asset included in property, plant and equipment	295,036	375,501
Expense relating to short-term leases (included in occupancy expenses)	63,197	75,700

14. CONTRIBUTED EQUITY

	2021	2020
	\$	\$
Share capital		
243,827,837 fully paid ordinary shares - no par value (2020: 242,545,479)	62,430,276	62,195,687

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

	<u>62,430,276</u>	<u>62,195,687</u>
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**Movement in ordinary share capital of
Aeris Environmental Ltd**

	2021 Number of shares	2021 \$	2020 Number of shares	2020 \$
Balance at beginning of year	242,545,479	62,195,687	211,746,510	50,195,854
Shares issued during year				
Shares issued to Directors towards repayment of their loan	-	-	-	-
Shares issued to KMP	-	-	-	-
Share placement - Strategic Investors	-	-	28,000,000	12,040,000
Share Placement Plan	-	-	-	-
Shares issued against exercise of options and rights	882,358	145,589	536,411	57,533
Shares issued to consultants and advisors	400,000	89,000	2,262,558	489,300
	<u>243,827,837</u>	<u>62,430,276</u>	<u>242,545,479</u>	<u>62,782,687</u>
Transaction costs relating to share issues	-	-	-	(587,000)
Balance at end of year	<u>243,827,837</u>	<u>62,430,276</u>	<u>242,545,479</u>	<u>62,195,687</u>

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

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15. RESERVES

	2021 \$	2020 \$
Foreign currency translation reserve	(156,257)	(65,483)
Share based payments reserve	1,856,689	1,970,286
	<u>1,700,432</u>	<u>1,904,803</u>

Foreign currency translation reserve

Balance at beginning of financial year	(65,483)	(52,796)
Foreign exchange translation difference	(90,774)	(12,687)
Balance at end of financial year	<u>(156,257)</u>	<u>(65,483)</u>

Nature and purpose of reserve

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

Share based payments reserve

Balance at beginning of financial year	1,970,286	2,196,869
Share based payments during the year allocated to:		
Employees and consultants	74,904	117,809
Key Management Personnel	8,088	27,341
Utilised for share issue	(196,589)	(371,733)
Balance at end of financial year	<u>1,856,689</u>	<u>1,970,286</u>

Nature and purpose of reserve

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

16. ACCUMULATED LOSSES

Balance at beginning of financial year	(44,795,847)	(46,778,788)
Net profit (loss) for year	(5,867,178)	1,982,941
Balance at end of financial year	<u>(50,663,024)</u>	<u>(44,795,847)</u>

17. NON-CONTROLLING INTERESTS

Balance at beginning of financial year	3,685	3,685
Net loss for year	-	-
Balance at end of financial year	<u>3,685</u>	<u>3,685</u>

18. PARTICULARS RELATING TO CONTROLLED ENTITIES

Name of entity	Country of incorporation	Ownership interest 2021	Ownership interest 2020
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	75	75
Aeris Cleantech Europe Ltd	Malta	100	100
Aeris Environmental (UK) Ltd	UK	100	N/A

19. SUBSEQUENT EVENTS

There have been no matters or circumstances, which have arisen since 30 June 2021 that have significantly affected or may significantly affect:

- (a) the operations, in financial years subsequent to 30 June 2021, of the consolidated entity; or
- (b) the results of those operations;
- (c) the state of affairs, in the financial years subsequent to 30 June 2021, of the consolidated entity.

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20. 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

During the year ended 30 June 2021 the most significant client accounts for approximately 34% (2020: 22%) of the consolidated entity's external revenue through Australian Sales and Services operating segment. There were no other customers who individually amounted to 10% or more of the total revenue during 2020 and 2021.

Operating segment information of the consolidated entity

	Australia	International	Intersegment eliminations	Consolidated
	\$	\$	\$	\$
2021				
Revenue				
Sales	6,292,080	956,848	(71,960)	7,176,968
Other Income	205,624	2	-	205,626
Total Revenue	6,497,704	956,850	(71,960)	7,382,594
Expenses				
Cost of goods sold	3,795,306	698,463	(71,960)	4,421,810
Operating expenses	8,619,183	841,905	(514,890)	8,946,198
Total Expenses	12,414,489	1,540,368	(586,850)	13,368,007
Profit before tax	(5,916,785)	(583,519)	514,890	(5,985,414)
2020				
Revenue				
Sales	13,813,583	1,410,585	(555,509)	14,668,659
Other Income	36,508	189	-	36,697
Total Revenue	13,850,091	1,410,774	(555,509)	14,705,356
Expenses				
Cost of goods sold	6,170,158	1,055,670	(555,509)	6,670,320
Operating expenses	6,310,101	774,348	(462,782)	6,621,667
Total Expenses	12,480,259	1,830,018	(1,018,291)	13,291,986
Loss before tax	1,369,831	(419,244)	462,782	1,413,370

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20. OPERATING SEGMENTS (CONTINUED)

Segment assets and liabilities	Assets		Liabilities	
	2021	2020	2021	2020
	\$	\$	\$	\$
Australia	16,548,826	22,570,313	4,777,701	5,064,275
International	964,955	1,316,076	4,083,079	4,156,956
Total	17,513,781	23,886,389	8,860,780	9,221,231
Intersegment elimination	(963,181)	(1,207,468)	(5,781,549)	(5,850,638)
Consolidated	16,550,600	22,678,921	3,079,231	3,370,593

21. 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:

	2021	2020
	\$	\$
Cash at bank and on hand	906,654	2,375,477
Deposits on call	10,578,963	10,573,862
	<u>11,485,616</u>	<u>12,949,339</u>

(b)

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

	2021	2020
	\$	\$
Operating profit (loss) after income tax	(5,867,178)	1,982,941

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

Depreciation and amortisation	132,552	134,378
Impairment expense	1,462,697	135,781
Interest on lease liability	16,850	20,079
Share based payments	120,992	145,150

Changes in assets and liabilities

Decrease / (Increase) in receivables	3,783,120	(2,201,947)
Decrease / (Increase) in inventory	(516,038)	(2,716,789)
Decrease / (Increase) in other assets	(104,988)	(67,599)
(Decrease) / Increase in trade creditors	(818,912)	385,675
(Decrease) / Increase in other creditors and accruals	411,432	104,383
Increase / (Decrease) in employee entitlement expense	99,535	26,988

Net cash used in operating activities

	<u>(1,279,937)</u>	<u>(2,050,960)</u>
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