

AERIS TECHNOLOGIES LTD (AEI)

SPECULATIVE: With the key business building blocks now in place, this environmental solutions company is on the cusp of sales take-off.

DIRECTORS

Maurie Stang, Chairman
Huw Jones, Executive Director
Steven Kritzler, Non- Executive Director
Bernard Stang, Non- Executive Director

SENIOR MANAGEMENT

Huw Jones, CEO
Robert Waring, Company Secretary
Robert McLean, Global Commercial Manager
Andrew Young, Global Marketing Manager

MARKET DATA

Current Price	\$0.585
ASX Code:	AEI
Shares on Issue:	87.5 million
Options on Issue:	1.2 million
52 week Share Price Range:	\$0.41 - \$0.77
Market Capitalisation:	\$51.2 million

FINANCIAL SUMMARY

\$mill	2004-05	2005-06
Revenue	0.63	1.56
Pre Tax	-3.31	-3.61
Net Profit	-3.31	-3.53
Cash Assets	8.18	6.01

CORPORATE DIRECTORY

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KEY POINTS

Aeris Technologies is commercialising a range of novel and patented technologies under the brand name AerisGuard that remove and provide protection against biological contamination in air-conditioning, refrigeration and bulk water systems.

Aeris has the technology, resources and capabilities to target annual product and service sales in the range \$60 million to \$80 million within five years compared with a broad estimated multi-billion global market opportunity.

The company's products generate strong margins and this should lead to sustainable and high growth profitability once sales pass the estimated breakeven point of about \$11 million.

Early sales to large global companies provide technical and value proposition validation.

The positioning and value proposition reflect the rapidly increasing global awareness of the environmental impact of rising energy usage and the potential significant efficiency, productivity and health benefits.

Marketing and distribution systems are now in place to address several targeted market segments. In particular, distribution agreements have been established in Asia with a leading multi-national air-conditioning corporation and a global diversified technology company. A subsidiary has also been established to directly support US operations.

Aeris is strategically focussing on sales to major global corporations which, whilst requiring a longer sales lead time, have the benefit of providing greater upside potential in the medium term.

Importantly, the Company is developing a more direct service model in key markets which is expected to drive significantly improved revenue and profitability opportunities.

BACKGROUND AND OVERVIEW

Aeris Technologies is commercialising a range of novel and patented chemical solutions under the brand name AerisGuard that remove and provide protection against biological contamination in air-conditioning, refrigeration and bulk water systems.

Globally, these are multi-billion dollar industries which are prone to contamination and have potentially major productivity or community health issues as a result.

Distribution agreements with Trane in Asia (a leading commercial air-conditioning corporation) and 3M in Japan validate both the technology and the customer value proposition.

Aeris Technologies joined the ASX in mid-2002 via a backdoor listing. The company's objective was to commercialise a range of products that would significantly improve indoor air quality, particularly in commercial environments.

The company's products and technologies have been proven to be highly effective in removing biofilm in a range of applications including large water systems (mining operations and groundwater) and for the protection against mould and bacteria in air-conditioning and refrigeration systems.

Whilst it is envisaged that occupational health and safety requirements will be a major driver of the Aeris business in the future, efficiency, energy and productivity are currently stronger economic drivers. This allows Aeris to provide large corporations a return-on-investment which aligns strongly with their corporate objectives in relation to their energy and environmental policies.

In common with many other innovative technology companies offering potentially breakthrough solutions, Aeris has had to climb a steep learning curve in developing viable, sustainable business models for various target markets and geographies. The company took on board the lessons from some unsatisfactory experiences and now has in place business models that will deliver sales traction and realise maximum value. In Asia, the company is working with large corporations with established distribution channels that can readily manage a raft of cultural issues whilst in other markets such as Australia and the US, Aeris' will control the whole value chain.

The core issue for the company in building an effective model is that product sales, in which the technology and value proposition is embedded, represents only a small proportion of the value of a transaction. Significantly, much of the value is captured by the delivery of the service and application of the product. Without tight control of the distribution system, third party distributors, service providers and applicators tend to set priorities and agendas which have not proved to deliver sufficient value and focus to Aeris.

With larger corporations the company is now positioning itself as a provider of "managed solutions" via global Master Service Agreements from which it will capture up to 10 times the revenue that it has enjoyed in the earlier arms-length product distribution model.

Accordingly, by controlling the service provision and the whole value chain, Aeris will markedly boost revenues without sacrificing margins, have greater quality control and gain valuable market intelligence.

Aeris has reported high-level negotiations with a major US pharmaceutical company regarding the roll-out of its products through its facilities worldwide. The company is focussed on converting this into a formal agreement that has the potential to deliver multi-million dollar sales on an annual basis. If successful, it is anticipated that first sales would occur towards the end of calendar 2007 with the full impact in 2008-09.

The global market opportunity for Aeris products sales is estimated to be in excess of \$3.5 billion and significantly greater for a managed solution / direct service business model. The priority for the company is to now roll-out its enhanced business model to capture a growing stream of recurring revenue from this well defined market opportunity.

A realistic annual sales target for the company over five years, recognising its capabilities and resources, is between \$60 million and \$80 million. This includes revenue from both product sales and service provision.

In 2005-06, the company reported total revenue of \$1.6 million including sales of \$0.8 million. In the six months ended 31 December 2006, sales of \$0.5 million were reported pointing to a large gain, albeit off a small base in 2006-07.

A major success for the company over the past two years has been repositioning itself to capture a larger share of the economic benefits of the company's products rather than merely pricing on a traditional cost plus basis. Accordingly, gross margins are high.

As at 31 December 2006, the company had cash assets of \$4.4 million plus stock and intangibles and no net debt.

Aeris is in a strong position based on its investment over the last 24 months to capitalise on its positioning as an emerging environmental solutions business.

Over the past two years, it has put in place the necessary resources and structures to enable it to build a successful business. With the marketing strategies, distribution systems and business models now in place, Aeris is poised to experience "business takeoff"

ACHIEVEMENTS

- March 2006 USA EPA regulatory approval granted for core Bioactive Coil Treatment
- May 2006 Trane orders OEM Corrosion Protection product
- June 2006 Acquisition of SteriAir Coolroom Cleaning Service Pty Ltd and launch of direct service business Aeris Hygiene Services
- July 2006 First OEM Corrosion Protection order from USA coil manufacturer
- July 2006 R&D of biofilm resistant polymers
- September 2006 Trane expands Aeris distribution across Asia-Pacific
- October 2006 Two year distribution agreement with Sumitomo 3M Japan
- February 2007 Aeris USA established
- February 2007 CSIRO energy study commenced
- March 2007 12 month service contract with BHP Billiton mine to control biofilm.

A LARGE GLOBAL OPPORTUNITY

Aeris' market opportunity is substantial reflecting the size of the installed base of commercial and industrial air-conditioning, refrigeration and bulk water systems and the obvious need for regular maintenance and repair.

Whilst there is an established market for maintenance services and product supply, Aeris' products fall into a new category within the broader market.

The "environmental hygiene" market is relatively immature and needs to be developed with the competitive barrier being indifference and inertia rather than other players.

Based on its own research and from industry sources in the US and elsewhere the company has estimated the size of the product-sales opportunity as being between \$3 billion and \$4 billion per annum.

The split by the three key target segments are:

Refrigeration:	\$2 billion
Commercial air-conditioning:	\$1.4 billion
Water systems:	\$0.3 billion

As the company has a global perspective and has established distribution arrangements in key markets these numbers are considered a reasonable basis for assessing the opportunity.

Importantly, as the company moves to a more direct service business model the size of the target market will be 5-10 times that shown above.

The potential is undoubtedly large and we estimate that the company has the resources and capabilities to achieve annual sales of between \$60 million and \$80 million within 5 years from a mix of product and service revenue. As momentum builds, product sales are likely to contribute less and than 25% of total sales.

THE TECHNOLOGY

Aeris IP is founded on two key technology platforms: Multi-enzyme biofilm removal and residual anti-microbial coatings.

Biofilm (commonly known as slime) can be found in a wide variety of situations. The world's leading authority on the subject, the Centre of Biofilm Engineering at Montana University in the USA, stated that "*Microbial biofilms on surfaces cost the [USA] billions of dollars yearly in equipment damage, product contamination and energy losses*"

Biofilm can be readily found in air-conditioning, refrigeration systems, and any large water system. Importantly, not only can biofilm harbour harmful bacteria (including legionella) it can have a huge impact on the efficiency and life-expectancy of the system resulting in reduced productivity and increased energy consumption.

Aeris believes its multi-enzyme technology is the world's most environmentally friendly and effective method of removing the biofilm. The company's recent success with BHP Billiton in removing the biofilm from a 6.5 km underground water pipe system and the subsequent 12 month service contract with the resources company gives substance to this claim.

Air-conditioning and refrigeration systems are more complex still and require additional protection from re-contamination to ensure that the health and efficiency benefits are sustained. Aeris' unique Anti-Microbial Coating IP has a residual action giving continuous protection for up to 12 months.

Importantly, Aeris has been unable to identify any competitor product globally to the anti-microbial coating which can provide similar residual protection for the customer.

BUSINESS STRUCTURE

Having analysed the opportunity, Aeris has established four business units to target specific market segments. Each business unit has global potential and reflects the different product needs, value propositions and business models required to address each segment and their unique market structures and dynamics. The company has commenced a process of incorporating subsidiaries to manage the business in various geographies and market segments. The four segments are:

- Air-conditioning
- Refrigeration
- Water
- Corrosion Protection

AIR CONDITIONING

The air-conditioning market is potentially Aeris' largest business segment. Whilst most systems are regularly maintained, they do not necessarily perform at their designed efficiency levels due to biological and bacterial contamination which is also a source of air quality issues. The emerging value proposition is potential significant energy savings from having systems working more efficiently. The company's products provide both remediation and protection for air-conditioning systems.

On a global basis, the air-conditioning sector is enormous with the US, Japan and China being the three largest markets. Moreover, the sector is highly fragmented making it very difficult to address effectively. Accordingly, the company is targeting a number of industries where there are large operators with multiple sites and where air-quality is particularly sensitive and potentially a risk issue. These sectors include pharmaceutical, large retail, hospitality and electronics manufacturing.

Aeris has established third party distribution agreements with Sumitomo 3M in Japan and Trane in Thailand and Vietnam and expanding into other Asian markets. These 3rd party agreements provide rapid credibility and branding and generate an effective means of gaining access to the large and culturally diverse Asian region.

The company has also recently established a subsidiary in the US to manage a major roll-out in that market through a local distribution and direct service model. Larger accounts in the US will be managed directly by the company through Master Service Agreements, which also entails some degree of direct service provision.

Early successes have been achieved in the US with Wyeth, DuPont, Thomas Jefferson University Hospital and Trump Taj Mahal Casino being notable accounts.

Over the past eighteen months the company has been trialling its AeriGuard solution with a leading global pharmaceutical company. The key objective of this pharmaceutical company is to significantly reduce its energy consumption over the next three years. Air-conditioning accounts for over 55% of its global energy use, therefore savings in this area are critical if it is to achieve its objective.

The trials have been a success and over an eighteen month period the energy savings resulting from application of Aeri's products was estimated to be up to 15% (or US\$10 million per annum). Discussions are underway for Aeri's to be listed with preferred supplier status through a Master Service Agreement. Whilst this does not guarantee specific sales Aeri would be in a very favourable position over time to supply the corporation's plants in 14 countries providing a potential sales pipeline of A\$6 million to A\$8 million per annum

REFRIGERATION

In early 2006 Aeri market research highlighted that whilst a significant number of cool-room refrigeration systems in Australia are contaminated with mould and bacteria, most are not cleaned. This contamination, as well as being a hazard to food hygiene, also appeared to significantly reduce the efficiency of the cooling equipment leading to poor temperature and humidity control – potentially reducing the shelf-life of the foodstuff.

The refrigeration market is attractive due to its size and also the presence of regulations governing operating conditions in most of the industries using coolrooms or cold chain environments. Typically these are in the food handling, processing and transport, pharmaceutical and hospitality industries.

The regulatory threat to maintain hygiene standards is a powerful business driver; however efficiency improvements, asset protection and improved shelf life also provide strong economic benefits.

Aeri commenced the roll-out of its refrigeration business in the \$100M Australia market where the company has established a direct service model.

In June 2006, Aeri acquired Sydney based SteriAir Coolroom Cleaning Service Pty Ltd and launched its direct service business as Aeri Hygiene Services. Aeri Hygiene Services is currently being rolled-out in Sydney and is servicing a number of key accounts including Golden State Foods, Red Rooster and a variety of customers at the Flemington Fresh Produce Markets.

Aeri is also investigating the feasibility of using a franchising or contracting system as a means of quickly building a rapid market presence. Under this model, Aeri will own and manage the customer accounts and relationships and sub-contract the service to its franchisees. This may also form the basis of a global expansion of this business with the establishment of master franchisees in key markets.

Aeri Hygiene Services will provide a roll-out model for the target export markets of UK, USA and Japan with overseas expansion expected to commence late 2007.

WATER

Biofilm commonly exists in large water systems and can cause a variety of issues ranging from lost productivity due to blocked filters, increased OH&S risk due to the harmful bacteria in the biofilm, and reduced life of the infrastructure due to biofilm's corrosive nature.

Industries affected by biofilm include mining, water treatment, food processing, oil recovery and cooling water.

Conventional biocides (eg chlorine) which are added to water systems to kill and control the bacteria are often ineffective against biofilm. Moreover, the chemicals which are commonly used to remove biofilm build-up (eg caustic soda) are very environmentally undesirable. There is therefore a growing demand for an environmentally friendly method of removing and controlling biofilm.

In March 2007, Aeris signed a 12 month service contract with a BHP Billiton mine in Australia. The contract was for the control of biofilm in the mine's large underground water system using the company's patented AerisGuard Multi-Enzyme Biofilm Removal product. The contract was a culmination of an 18 months trial with BHP Billiton to demonstrate the effectiveness of the AerisGuard solution in keeping the crucial fire-safety water system free from biofilm blockages.

This commercial agreement was a major validation of the efficacy and success of Aeris' novel approach to water treatment and biofilm removal and puts Aeris in a position to replicate the model in mining and other industries

The technology has a wide range of applications where filters and membranes are prone to biofilm fouling including with reverse osmosis systems used in desalination plants.

The company is also working with Orica on a groundwater treatment plant associated with site restoration at its former Botany plant in Sydney to develop an on-going biofilm control regime utilising the company's multi-enzyme technology.

The water business opportunity is large with a relatively concentrated number of global customers. Aeris will therefore seek to build strategic partnerships with established suppliers to these industries to establish a rapid and sustainable entry into these markets.

CORROSION PROTECTION

Corrosion Protection is a natural complimentary product offering to the company's core anti-microbial technology as both provide the customer long term protection of their air-conditioning and refrigeration systems.

Aeris Corrosion Protection technology can be sold to manufacturers of refrigeration and air-conditioning heat exchange coils (OEM's) for application during assembly or used as a maintenance coating once the system has been installed.

The OEM manufacturers have historically had long sales lead times. Nevertheless, Aeris has been successful in selling the product to air-conditioning and coil manufacturers in the Gulf, India, USA and importantly to Trane in Thailand.

The maintenance product has been applied to a number of accounts in Asia, Australia and USA including a large electronics manufacturer in Thailand. Revenues of the maintenance product are likely to grow off the back of the refrigeration and air-conditioning microbial protection businesses previously detailed.

Over time the company will also seek to incorporate its core anti-microbial technology into the coating to provide additional benefits to its customers.

FINANCIAL

In 2005-06, Aeris reported a net loss of \$3.5 million from total revenue of \$1.6 million which included sales of \$0.8 million. There was a cash flow deficit of \$2.8 million principally due to operating overheads of about \$4.4 million. The interim 2007 results point to the company achieving a net loss for 2006-07 of around \$4.0 million.

As at 31 December 2006, the company had cash assets of \$4.4 million which is adequate to meet the immediate needs of the company as it moves to towards building a sustainable base and positive cash flows. The company has no net debt.

Based on a gross margin of 65% and current overheads of about \$5 million, we expect the company to achieve profitability in 2008-09 with a breakeven sales point of around \$11 million. As is common for product distribution companies, the two largest expense items, which account for about 60% of overheads, are sales and marketing activities and employee benefits.

Whilst the company could shave up to about \$2 million off the break-even point to bring profitability forward, this would be at the expense of critical growth and business market development expenditure which would most likely adversely affect growth momentum over the following two to three years.

Aeris existing capabilities and processes are now well placed to support anticipated revenue growth without the commensurate growth in the cost structure

DIRECTORS

Maurie Stang, Non-Executive Chairman

Maurie Stang is Chief Executive Officer of the Regional Health Care group of companies and of Novapharm Research. He has a 25 year track record of 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, Maurie 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. He is a Director and shareholder of Novapharm Research and of Nanosonics and is the founder of Gryphon Capital.

Huw Jones, Executive Director, Chief Executive Officer

Prior to joining Aeris Technologies in 2004, Huw Jones worked as Managing Director, Australasia of Datex Ohmeda (now GE Healthcare), a \$1bn global, high technology equipment manufacturer and business-to-business supplier, operating in the healthcare sector.

Huw holds a First Class Degree in Civil Engineering and an MBA from the London Business School and is a non-executive director of Nascor Pty Ltd, a specialty medical equipment company.

Steven Kritzler, Non-Executive Director

Steven Kritzler is the Technical Director of Novapharm Research. He has some 35 years experience in commercial R&D in the areas of pharmaceutical, medical, cosmetic and specialty industrial products. Under

Under Steven's technical direction, Novapharm Research has become a world-leader in infection control science. He has an M.Sc from UNSW in the field of Polymer Chemistry, holds a number of international patents, and is a director and shareholder of Novapharm Research and of Nanosonics.

Bernard Stang, Non-Executive Director

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

Bernard is CEO of property development investment company Stangcorp Pty Ltd, which has been involved in various retail, commercial and industrial property transactions over the past 25 years. He graduated with a Bachelor of Architecture and gained significant large-scale project management and building experience prior to co-founding the Regional Health Care group of companies. He is a director and shareholder of Novapharm Research and of Nanosonics.

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