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31 January 2006

Companies Announcements Office  
Australian Stock Exchange Limited

### **QUARTERLY REPORT – APPENDIX 4C**

In accordance with Listing Rule 4.7B we attach the December 2005 Quarterly Report – Appendix 4C.

In the quarter ending December 2005 Aeris Technologies updated the market with strong progress in relation to US EPA regulatory approval, new market development, the formation of a new subsidiary and R&D grants.

#### **Highlights**

- EPA expect an expeditious path for Bioactive Coil Treatment Product through the regulatory process with completion targeted for the first quarter of 2006;
- AerisGuard Bioactive Filter Treatment product has been awarded the fast-track 120 day review process by EPA;
- Aeris cash position is very strong at \$7.92 million at 31 December 2005;
- Sumitomo 3M, are successfully progressing their pilot launch of the AerisGuard range of commercial and residential products in Japan;
- Aeris received a second order from SKM for AerisCoat OEM Corrosion Protection;
- Aeris Technologies provided HVAC coils coated with AerisCoat to manufacturers in Indochina and the USA;
- Aeris initiated two new separate commercialisation projects, both with the CSIRO;



- Aeris signed a Memorandum of Understanding (MOU) with Steriair Coolroom Cleaning Services Pty Ltd in Australia.

### **AerisCoat OEM Corrosion Protection Contracts**

Aeris Technologies continues to progress major sales opportunities for its unique AerisCoat™ OEM (original equipment manufacture) Corrosion Protection product in USA and Indochina whilst supporting its customer accounts in Middle East and India.

In the quarter Aeris received a second order from SKM for AerisCoat OEM. SKM is based in the United Arab Emirates and is one of the leading manufacturers of residential and commercial air-conditioning equipment in the Gulf region. The second order was for 2,000 litres and followed implementation of the AerisCoat dipping system at SKM manufacturing plant and takes the total volume purchased by the company to 4,000 litres.

Aeris Technologies have provided HVAC coils coated with AerisCoat to a major manufacturer in Indochina and also a number of large manufacturers in USA. These coils will be used by the manufacturers for their internal validation tests.

As previously stated, whilst the sales lead time for Aeris OEM is subject to the lead-time of global manufacturers the reaction from potential customers continues to be extremely positive and the progress in the target accounts is ahead of schedule.

### **Japan**

Following receipt of their first substantial stocking order Aeris's master distributor in Japan, Sumitomo 3M, are successfully progressing their pilot launch of the AerisGuard range of commercial and residential products despite the onset of winter in the region. Full launch is expected early 2006 and is planned to include a national advertising and promotional campaign targeted at the residential AerisGuard system.

Aeris and 3M continue to explore opportunities to expand their relationship to other regions.

### **R&D Grant**

In the quarter Aeris advised that the Company had initiated two new separate commercialisation projects, both with the CSIRO in Australia, for the application of Aeris' unique and patented technologies.

The first research study is being funded jointly by the Victorian State Government and the commercial sector and is focused on legionella management and the associated removal and control of biofilm in cooling towers and related water circuits.

The expected outcome for Aeris is independent confirmation of the Company's conviction that the control of biofilm is directly associated with the control of legionella. Furthermore, it is anticipated that the research will demonstrate the superiority of multi-enzyme technologies (such as AerisGuard Cooling Tower Enzyme solution) in removing biofilm versus the commonly used bio-dispersants currently on the market. There is already strong recognition in the market for the Company's multi-enzyme technologies in removing biofilm and the outcome of this project is expected to be increased awareness of the global issues and Aeris solutions with worldwide customers and regulators.

The expansion of the Company's advanced enzyme technology will significantly strengthen its intellectual property portfolio and Aeris intends to invest in resources to take advantage of the resulting extensive commercial opportunities.

The second commercial project follows successful early research by the Aeris product development team in creating biofilm resistant polymers (a unique range of biocidally active plastics) which can potentially injection moulded vacuum formed for use in a wide range of environmental hygiene applications. The Company has now entered into a technical collaboration with the CSIRO to accelerate the commercial application of this novel technology. The biofilm resistant polymers have applications in the Company's current business focus (eg the manufacture of water system infrastructure, such as cooling towers, water pipes and tanks) as well in wider environmental hygiene applications.

Aeris fully anticipates that the polymer project will generate additional valuable intellectual property and proprietary environmental solutions in the next two years to add to the Company's already impressive product portfolio.

### **Regulatory Update**

In November 2005 the Company advised that following a positive meeting with the EPA in the USA on 26 October attended by the Company's Technical Director Steve Kritzler, all outstanding issues regarding the regulatory submission of the key Bioactive Coil Treatment Product have been resolved.

The EPA communicated that they now expect an expeditious and smooth path through the regulatory process with completion targeted for the first quarter of 2006. This is a decisive result and supports the Company's previous assertions relating to the efficacy and residual claims of our technology.

Additionally, the Company was advised that its AerisGuard Bioactive Filter Treatment product has been awarded the fast-track 120 day review process.

Aeris and its regulatory consultants continue to work closely with the EPA to ensure an expeditious completion of the regulatory approval for all relevant

Aeris products which will support the expansion of the Company's USA business growth in 2006.

In the meantime, Aeris' master distributor in the USA is focused on progressing a number of AerisCoat OEM and AerisCoat OnSite Corrosion Protection opportunities in the region with these products not requiring EPA approval.

### **Australia Partnership in Food Storage HVAC Market**

In the quarter Aeris signed a Memorandum of Understanding (MOU) with Steriair Coolroom Cleaning Services Pty Ltd for the application of the AerisGuard HVAC hygiene technologies in perishable foodstuff cool room installations in Australia.

Steriair is a technological leader in the specialised perishable food storage air-conditioning market where the growth of mould and bacteria on the refrigeration equipment is intensified by the off-gassing from the foods (eg fruit and vegetables) being stored. This increased contamination significantly reduces the efficiency of the cooling equipment leading to poor temperature and humidity control and consequently reducing the shelf-life of the foodstuff.

The MOU followed highly successful trials in cool storage facilities at Flemington Market in Sydney where the unique AerisGuard Bioactive solutions protected the HVAC equipment from contamination and provided the cool room operators with measurable efficiency improvements in the equipment and thereby increasing the foodstuff shelf life.

The market for perishable food storage includes fresh produce markets, refrigerated transport and retail cool room storage (including all supermarkets). Steriair estimates that the total market in Australia (at Aeris prices) is valued in excess of \$10 million per annum and Aeris will be building on this Australian success in rolling these new opportunities into our global network.

The significant need within the food storage industry for uncontaminated air and control of the cooling environment and Steriair's focus on hygiene and energy solutions is a perfect strategic fit with Aeris Technologies and the unique benefits of the AerisGuard protection system.

### **New Subsidiary**

In recognition of the increasingly large and specialist nature of the global opportunities for the Aeris patented multi-enzyme water treatment products, the Company has formed a new subsidiary, Aeris Biological Systems Pty Ltd.

Aeris Biological Systems will focus its expert resources entirely on the large international market for the removal and control of biofilm in water systems both from a perspective of legionella management and energy efficiency.

The formation of this new company follows successful commercial removal of biofilm from a diverse range of water systems including numerous cooling towers, the production plant of a global food group, a water storage area for an international multi-media company, and a water system in an underground mining operation.

In addition, Aeris Biological Systems will also be targeting the well-known biofilm issues in other global industries such as mining, paper mills, and brewing.

Aeris Biological Systems is a wholly owned subsidiary of Aeris Technologies Ltd.

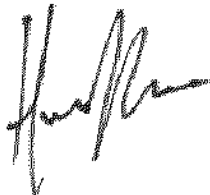
### **Finance**

Cash receipts from operations in the quarter were \$254,000.

The Company is pleased to advise that operating cash expenses continued to be in line with forecast and averaged \$267,000 per month over the quarter (excluding purchases).

Aeris cash position remains very strong with cash on hand of \$7.92 million at 31 December 2005 (equivalent to over four years of cash at current net operating cashflow levels) and the Company remains debt free.

Yours sincerely



Huw Jones  
Chief Executive Officer

# Appendix 4C

## Quarterly report for entities admitted on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001

Name of entity

**Aeris Technologies Ltd**

ABN

19 093 977 336

Quarter ended ("current quarter")

31 December 2005

### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (6 months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from customers	254	389
1.2 Payments for:		
(a) staff costs	(334)	(675)
(b) advertising and marketing	(70)	(133)
(c) research, development and patents	(121)	(194)
(d) leased assets	(69)	(135)
(e) other working capital	-	-
(f) other admin and corporate costs	(208)	(464)
(g) product purchased	(81)	(120)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	118	242
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid – R&D tax rebate	-	80
1.7 Other - Export Market Development Grant	-	-
- Rent received	30	61
<b>Net operating cash flows</b>	<b>(481)</b>	<b>(949)</b>

+ See chapter 19 for defined terms.

**Appendix 4C**  
**Quarterly report for entities**  
**admitted on the basis of commitments**

	Current quarter \$A'000	Year to date \$A'000
1.8 Net operating cash flows (carried forward)	(481)	(949)
<b>Cash flows related to investing activities</b>		
1.9 Payment for acquisition of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	(29)	(82)
(e) other non-current assets	-	-
1.10 Proceeds from disposal of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	-
(e) other non-current assets	-	-
1.11 Loans to other entities	-	-
1.12 Loans repaid by other entities	-	-
1.13 Other (provide details if material)	-	-
<b>Net investing cash flows</b>	<b>(29)</b>	<b>(82)</b>
1.14 <b>Total operating and investing cash flows</b>	<b>(510)</b>	<b>(1,031)</b>
<b>Cash flows related to financing activities</b>		
1.15 Proceeds from issues of shares, options, etc.	-	773
1.16 Proceeds from sale of forfeited shares	-	-
1.17 Proceeds from borrowings	-	-
1.18 Repayment of borrowings	-	-
1.19 Dividends paid	-	-
1.20 Other – share issue expenses	-	-
<b>Net financing cash flows</b>	<b>-</b>	<b>773</b>
<b>Net increase (decrease) in cash held</b>	<b>(510)</b>	<b>(258)</b>
1.21 Cash at beginning of quarter/year to date	8,434	8,182
1.22 Exchange rate adjustments to item 1.20	-	-
1.23 <b>Cash at end of quarter</b>	<b>7,924</b>	<b>7,924</b>

+ See chapter 19 for defined terms.

**Payments to directors of the entity and associates of the directors**

**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	120
1.25	Aggregate amount of loans to the parties included in item 1.11	Nil

1.26 Explanation necessary for an understanding of the transactions

Payments for rent of \$64,000 were made to Ramlist Pty Ltd, of which B Stang is a director. Payments for contracted R&D of \$52,131 were made to Novapharm Research (Australia) Pty Ltd and \$3,714 to Nanosonics Pty Ltd, of which Messrs M Stang, B Stang and S Kritzler are directors. Payments for contract staff of \$471 were made to Regional Health Care Group, of which Messrs M Stang, B Stang and S Kritzler are directors.

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

None

2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

Not applicable

**Financing facilities available**

*Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).*

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	Nil	Nil
3.2	Credit standby arrangements	250	Nil

+ See chapter 19 for defined terms.

**Appendix 4C**  
**Quarterly report for entities**  
**admitted on the basis of commitments**

**Reconciliation of cash**

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
4.1 Cash on hand and at bank	229	205
4.2 Deposits at call	7,695	8,229
4.3 Bank overdraft	-	-
4.4 Other – bank accepted bills of exchange	-	-
<b>Total: cash at end of quarter (item 1.23)</b>	<b>7,924</b>	<b>8,434</b>

**Acquisitions and disposals of business entities**

	Acquisitions <i>(Item 1.9(a))</i>	Disposals <i>(Item 1.10(a))</i>
5.1 Name of entity	None	None
5.2 Place of incorporation or registration		
5.3 Consideration for acquisition or disposal		
5.4 Total net assets		
5.5 Nature of business		

**Compliance statement**

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
- 2 This statement does ~~does not~~\* (*delete one*) give a true and fair view of the matters disclosed.

*Robert Waring*

Sign here: \_\_\_\_\_ Date: 31 January 2005  
(Director/Company Secretary)

Print name: \_\_\_\_\_  
Robert J Waring

+ See chapter 19 for defined terms.

## Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, *AASB 1026: Statement of Cash Flows* apply to this report except for the paragraphs of the Standard set out below.
  - 6.2 - reconciliation of cash flows arising from operating activities to operating profit or loss
  - 9.2 - itemised disclosure relating to acquisitions
  - 9.4 - itemised disclosure relating to disposals
  - 12.1(a) - policy for classification of cash items
  - 12.3 - disclosure of restrictions on use of cash
  - 13.1 - comparative information
3. **Accounting Standards.** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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