

Aeris Technologies Ltd
ABN: 19 093 977 336
Level 1, 5/26-34 Dunning Ave
Rosebery NSW 2018

Tel: 1300 557 481
Tel: +61 2 8344 1315
Fax: +61 2 9697 0944

31 October 2006

Companies Announcements Office
Australian Stock Exchange Limited

QUARTERLY REPORT – APPENDIX 4C

In accordance with Listing Rule 4.7B we attach the September 2006 Quarterly Report – Appendix 4C.

Highlights

- Trane expands in Asia
- Successful launch of Aeris Hygiene Services into Australian market
- First AerisGuard™ OEM Corrosion Protection order in USA
- R&D breakthrough: Novel anti-microbial polymer

Trane expands relationship with Aeris in Asia

In the quarter Aeris announced that following the commercial success with the AerisGuard products in Thailand and Vietnam Trane is now in the process of rolling-out the products in other key Asian markets.

Trane is a global leader in the manufacturing and servicing of air-conditioning systems and currently distributes the AerisGuard Hygiene Solutions and AerisGuard Corrosion Protection Solutions range of products in Indochina. Aeris has made several announcements on the developing relationship with Trane including in July 2006 the purchase by Trane Thailand of its first order of the AerisGuard OEM Corrosion Protection product.

As part of the roll-out the Aeris technical team has recently provided application training to Trane in Singapore and other key Asian markets.

Aeris has had on-going discussions with Trane about strengthening the relationship across the Asia Pacific region subject to the performance of the



products in the initial Indochina market. The Company is therefore pleased that Trane is now taking a stronger role in the distribution of both the AerisGuard Hygiene Solutions and AerisGuard Corrosion Protection Solutions across Asia giving Aeris access to an ever expanding customer base.

USA Market Update

In the quarter Aeris has been continuing to work with its distribution partners in the USA to develop future business from both major corporate accounts and the large network of independent service companies.

Notably the Company is currently working with one of its distribution partners on securing a large global customer account in the healthcare market. This account is expected to generate significant revenues in the 2007 year and provide a powerful reference site for other similarly energy conscious multi-national corporations.

In addition, Aeris is working with an organisation which has a distribution channel to over 2,500 residential air-conditioning contractors in the US.

Japan Market Update

Following Sumitomo 3M's high profile promotional activities in the Commercial and Residential air-conditioning markets in Japan, Aeris and 3M are in final negotiations on a 2 year strategic commercial distribution agreement.

Sumitomo 3M continues to research the cold storage hygiene market in Japan and receive strong customer demand for the unique AerisGuard hygiene system.

Initial market research and voice-of-customer feedback indicates that there is a large opportunity for environmental hygiene solutions in Japan. As a consequence a number of the Company's key executives are focusing their efforts to scale up the commercial activities in Japan.

AerisGuard Corrosion Protection

In July 2006 Aeris received its first commercial order of its novel AerisGuard OEM Corrosion Protection product in the USA.

The order from the LRC Coil Company Inc. (an independent and highly regarded specialised air-conditioning and refrigeration coil manufacturer in California) follows 12 months of trials and validation testing.

The initial order was in excess of A\$40,000 and Aeris will now be working closely with LRC to generate value-added demand for its AerisGuard corrosion protected product line in the extensive Californian market.

Aeris has previously announced that it had been working with a number of air-conditioning manufacturers who are either US based or have US plants. This

effort has been supported by the establishment of a pilot dipping plant in Denver, Colorado.

This recent success parallels sales activity with a number of significantly larger air-conditioning manufacturers in the USA who are awaiting the outcomes of independent testing due for completion by the end of 2006.

Significant R&D Developments

In the period Aeris achieved a major technical milestone in the development of its biofilm resistant polymers in collaboration with the CSIRO for a range of environmental applications.

These new polymers (plastic resins) have been successfully injection moulded and extruded creating a whole new class of self-disinfecting, biofilm resistant polymer complexes. The AerisGuard Smart Surfaces are environmentally safe, non toxic to humans and relatively low cost.

Biofilm commonly occurs in a range of aqueous environments and is the habitat for bacteria (Legionella) and other harmful organisms. The impacts on industry are far reaching, well known and costly. These include corrosion to oil pipelines, water cooling systems (for example water circuits in factories and commercial cooling towers) and loss in productivity (for example in paper mills, mines and groundwater treatment plants).

This novel range of smart surfaces is protected by a strong patent position and should now lead to the rapid development of commercial products with specific application in Aeris' water business unit as well as in its other core markets. The Company is targeting commercial release of products incorporating this technology during 2007.

Additionally, Aeris will seek to licence this technology to third parties for a wide array of environmental applications.

Aeris wishes to highlight that it has had, and continues to have, a substantial R&D program which has generated strategic and very commercial valuable products and intellectual property. The value of these innovations is now being recognised by a variety of customers and partners worldwide and will be a key driver of the Company's future growth.

Refrigerated Food Storage Market

The Company's new direct service subsidiary, Aeris Hygiene Services Pty Ltd, commenced operations in Australia on 1st July and is targeting the large and high growth food hygiene and protection market. Initial customer response has resulted in a near 100% conversion of qualified customers to either orders or future commitments which position s Aeris strongly in market in Australia worth in excess of \$100 million.

Aeris Hygiene Services (AHS) was specifically formed to focus on the supply and application of the Company's unique AerisGuard Bioactive hygiene protection technology to cool-room refrigeration systems in Australia and New Zealand.

AHS performed strongly in the quarter generating early sales and acquiring a growing number of customers who recognised the unique benefits of the AerisGuard service.

In addition, AHS is currently targeting key export markets with the view to launching its services overseas in the June 2007 quarter.

Water Treatment

Aeris' water treatment subsidiary, Aeris Biological Systems, continues to work with a number of customers across a diverse range of industries.

The Company is particularly pleased with the commercial trials at a large ground water treatment plant in Australia where the clients are working in collaboration with Aeris to solve their significant biofilm fouling issues.

The water treatment plant has a daily throughput capacity of 14 million litres but due to the build of biofilm is only able to run at a fraction of this. As a consequence the remediation efforts are being severely affected.

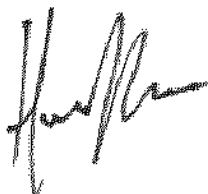
Aeris has already demonstrated in laboratory tests that its unique Multi-Enzyme Biofilm Removal technology is able to digest the specific biofilm in the treatment plant water. The team is now working to develop a suitable automated dosing and flushing system to be trialed on-site in November 2006.

Early estimates suggest that each groundwater treatment plant would generate upwards of \$250,000 in annual product revenue with plants commonly required to be in operation for over 15 years.

Finance

Cash receipts from operations in the quarter were \$398,000 due to sales growth in the previous quarter.

Aeris cash position remains strong with cash on hand of \$5.1 million at 30 September 2006 and the Company remains debt free.



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, 24/10/2005.

Name of entity

Aeris Technologies Ltd

ABN

19 093 977 336

Quarter ended ("current quarter")

30 September 2006

Consolidated statement of cash flows

| Cash flows related to operating activities | Current quarter | Year to date (3 months) |
|---|-----------------|----------------------------|
| | \$A'000 | \$A'000 |
| 1.1 Receipts from customers | 398 | 398 |
| 1.2 Payments for | | |
| (a) staff costs | (383) | (383) |
| (b) advertising and marketing | (244) | (244) |
| (c) research and development | (219) | (219) |
| (d) leased assets | (85) | (85) |
| (e) other working capital | (500) | (500) |
| 1.3 Dividends received | - | - |
| 1.4 Interest and other items of a similar nature received | 63 | 63 |
| 1.5 Interest and other costs of finance paid | (2) | (2) |
| 1.6 Income taxes refund (including R&D tax rebate) | 85 | 85 |
| 1.7 Other – rent received | 26 | 26 |
| Net operating cash flows | (861) | (861) |

+ See chapter 19 for defined terms.

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

| | Current quarter | Year to date (3 months) |
|--|-----------------|----------------------------|
| | \$A'000 | \$A'000 |
| 1.8 Net operating cash flows (carried forward) | (861) | (861) |
| Cash flows related to investing activities | | |
| 1.9 Payment for acquisition of: | | |
| (a) businesses (item 5) | - | - |
| (b) equity investments | - | - |
| (c) intellectual property | - | - |
| (d) physical non-current assets | (52) | (52) |
| (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) | - | - |
| Net investing cash flows | (52) | (52) |
| 1.14 Total operating and investing cash flows | (913) | (913) |
| Cash flows related to financing activities | | |
| 1.15 Proceeds from issues of shares, options, etc. | - | - |
| 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 (provide details if material) | - | - |
| Net financing cash flows | - | - |
| Net increase (decrease) in cash held | (913) | (913) |
| 1.21 Cash at beginning of quarter/year to date | 6,015 | 6,015 |
| 1.22 Exchange rate adjustments to item 1.20 | (913) | (913) |
| 1.23 Cash at end of quarter | 5,102 | 5,102 |

+ 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 | 357 |
| 1.25 | Aggregate amount of loans to the parties included in item 1.11 | - |

1.26 **Explanation necessary for an understanding of the transactions**

Payments for rent of \$88,215 were made to Ramlist Pty Ltd, of which B Stang is a director. Payments for contracted R&D of \$125,366 were made to Novapharm Research (Australia) Pty Ltd and \$5,651 to Nanosonics Limited, of which Messrs M Stang, B Stang and S Kritzler are directors. Payments for corporate overhead and administration of \$138,293 were made to Medi-Consumables Pty Ltd, 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.

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