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31 July 2007

Companies Announcements Office  
Australian Securities Exchange Limited

## **QUARTERLY REPORT – APPENDIX 4C**

In accordance with Listing Rule 4.7B we attach the June 2007 Quarterly Report – Appendix 4C.

### **Highlights**

- Acquisition of environmental services company in USA
- Supply agreement signed with Fortune 500 company based on energy saving
- Strong efficiency and environmental impact results from Food Science Australia study on AerisGuard system

### **Introduction**

Aeris has previously provided advice to shareholders of its strategy to become a leading environmental services company and to take a more direct channel to the customer in key geographical markets.

In the quarter this strategy achieved a key milestone with the signing of a multinational supply agreement with a leading Fortune 500 pharmaceutical corporation based on energy savings and the acquisition of an environmental services company in USA.

In addition the Company recorded its highest quarterly cash receipts from customers.

## USA Market Update

In May Aeris' wholly owned USA subsidiary, Aeris Technologies LLC, acquired a 60% majority stake in Aeris Atlantic LLC giving the Company an important foothold and immediate commercial revenue in the USA environmental services market.

The acquisition of Aeris Atlantic from Advanced Air Filtration LLC is in line with the Company's previously announced intention to move to a more direct model in the USA and gives Aeris access to the Mid-Atlantic region which includes the key States of Pennsylvania, New York State, New Jersey and Washington D.C.

Importantly, it is also the first stage of a planned roll-out of the AerisGuard Environmental Services solution business across USA which will provide major corporations with significant reduction in energy consumption, system efficiency improvements, and healthier indoor air.

Aeris Atlantic LLC is experiencing strong revenue growth and pre-acquisition had targeted revenues of AUD11 million in calendar year 2009. The Mid-Atlantic region represents approximately 17% of the USA market opportunity. Aeris is actively identifying further opportunities to build on this acquisition and to expand its direct sales presence in the USA and the roll-out of the AerisGuard Environmental Services business to the other States.

This acquisition gives Aeris the ability to work directly with the customer and importantly allows the Company to capture the true value of its intellectual property.

The acquisition of Aeris Atlantic will be satisfied with the issue of Aeris Technologies Ltd fully paid shares on achievement of financial targets over the next 2 years and the provision of a loan to fund the organisation's working capital requirements.

Aeris Atlantic brings management with a depth of experience and contacts in the USA environmental remediation and protection market. The company is managed day-to-day by Mr. Terry Bray (the past-President of the USA peak air-conditioning remediation trade body, NADCA) and will be strongly supported by Ron Bacskai, Aeris Technologies (USA) Executive Vice President.

Commercial roll-out of the AerisGuard system in the USA commenced in March 2006 after Aeris Technologies Ltd received regulatory approval for its patented environmental services products from the USA Environmental Protection Agency (EPA).

Over the last 12 months Aeris Atlantic has applied the AerisGuard Environmental Solution to a number of key accounts including Harrah's Hotel & Casino, Wyeth, Morgan Stanley, Chase Manhattan, Thomas Jefferson University Hospital, Trump Taj Mahal casinos and Princeton University.

As part of the Company's broader environmental services strategy Aeris Technologies is also actively identifying opportunities for the launch of its Aeris

Hygiene Services Cold Storage business in USA based on the success of the Australian direct model

The USA is the world's largest consumer of energy and producer of greenhouse gases and Aeris is now strongly positioned in the region to scale its environmental services growth.

### **Aeris Signs Supply Agreement with Fortune 500 Corporation**

In June Aeris Technologies signed an agreement with a Fortune 500 multinational corporation based in the USA for the full-service application of its unique AerisGuard technology.

As one of the world's leading corporations it has announced a commitment to significantly reduce green house gas emissions as it occupies more than 30 major facilities around the world. As a consequence it has a specific focus on its heating, ventilation and air-conditioning (HVAC) systems which can account for up to 65% of a corporation's energy consumption.

This milestone agreement comes after 18 months of extensive testing by the corporation of the energy saving benefits of the AerisGuard Air-Conditioning Performance Solution. As part of the testing and evaluation process the AerisGuard technology has been approved for use by the corporation's technical, environmental, occupational safety and procurement departments.

The corporation's Energy Team has now designated the AerisGuard Performance Solution as "Recommended Best Practice" and is now urging its global facilities to implement the system to reduce the energy consumption of its air-conditioning systems.

Importantly, and consistent with our added-value business model, Aeris Atlantic will be responsible for all key aspects of account management.

Discussions have now commenced with the first five major sites on implementation of the AerisGuard solution.

Based on the individual facilities implementing the corporation's energy reduction strategy this agreement has the potential to generate recurring multi-million dollar revenues to Aeris. It is anticipated that revenue will commence in the near term but based on the scale of the project it is anticipated it will take up-to 24 months to fully implement the AerisGuard solution in all key facilities.

This agreement provides validation by a major global corporation of the significant energy savings that can result from the on-going application of the Company's unique AerisGuard technology. This is an incredibly important result for Aeris given the growing demand from corporations to reduce energy and the equally important focus on reduction of greenhouse gas emissions. It also supports Aeris' intention and ability to be a leading integrated environmental services provider and thereby gaining full value from the Company's intellectual property.

Aeris is now in active discussions with other large multi-national companies who have publicly stated environmental policies driving them to seek cost-effective energy saving technologies.

### Australian Cold Storage Market

In February 2007 Aeris Technologies announced that it had entered into a contract with Food Science Australia (FSA), a joint venture between CSIRO and the Victorian Government, to examine the efficiency and energy saving benefits of the Company's unique AerisGuard™ Cool Room Performance Solutions.

The results of these first stage trials highlight the true potential value of the AerisGuard technology. The results were even more pleasing given the trials were performed in "real-life" commercially operated cool rooms which presented a number of challenges to the FSA team to correct results for the significant number of external factors affecting the measurements <sup>1</sup>.

The key outcomes of the trials were:

1. The AerisGuard technology would provide a potential reduction of about 74,500 tonnes of CO<sub>2</sub> greenhouse gases per year throughout Australia, based on the increase in cooling capacity and its impact on coefficient of performance (see point 5 below).<sup>2,3</sup>
2. The AerisGuard technology would provide a reduction in a cool room's operating temperature. In the systems tested, this reduction was 0.4°C. The impact on operating temperatures is expected to be greater in cold stores less well maintained than those tested. Temperature is critical in food storage, where even half a degree variation in storage temperature can have a dramatic effect on the shelf life and spoilage rates of food stuffs. For example, the optimal storage temperature for strawberries is +0°C <sup>4</sup>. In a cold store operating anywhere above this optimum temperature, a 0.4°C improvement after the Aeris treatment can extend the shelf-life of the strawberries by several valuable hours.
3. The AerisGuard technology would provide a reduction in temperature variability within the cool room by up to 1°C. Temperature variability is a measure of the ability of the refrigeration system to keep an even temperature throughout the room and prevent any "hot-spots", which can have a dramatic and detrimental impact on shelf-life and spoilage rates.

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1 As is the case with all "real-life" tests, the variability of individual site recordings due to localised conditions, daily operational influences and differing refrigeration systems mean individual site results are subject to variations amongst these results. Further research will be required to provide better benchmarking predictability

2 Based on commercial and industrial cold store installations in Australia with energy saving potential and based upon an 8% increase in cooling capacity and 70% utilization per year

3 Emission reductions will require the refrigeration system to translate an increased COP to reduced energy consumption. The reductions are therefore 'potential' as not all refrigeration systems can currently achieve this translation.

4 USDA, 2004. The Commercial Storage of Fruits, Vegetables, and Florist and Nursery Stocks Agriculture Handbook Number 66

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4. The AerisGuard technology would provide an increase in the evaporator<sup>5</sup> cooling capacity. In the plants tested, the increase in the evaporator's cooling capacity ranged from 8% to 39%. Improved cooling capacity translates into better temperature control in cold stores.
5. The AerisGuard technology would provide an improvement in the ratio of 'cold' created to the energy input at the compressor. Higher ratios, also known as "coefficient of performance" (COP) or "energy efficiency ratios" (EER), translate into better utilisation of the money spend in energy. The COP improvements in the plants tested ranged from 15% to 28%.

Understandably, whilst energy savings are of great interest to the operators of cool rooms they are generally significantly more concerned in ensuring that their facility is working efficiently to optimise the storage environmental conditions for their valuable food stuff and consequently to maximise shelf life and minimise spoilage. And in this respect the results of these trials demonstrate the great value of the AerisGuard Cool Room Performance Solutions.

Importantly the FSA results have also identified a number of specific areas for future testing related to efficiency and energy savings in the cold storage environment.

Aeris customers are constantly amazed (and often shocked) by the gross contamination that the Aeris Hygiene Services' teams remove from their commercial refrigeration systems. The customer is then even more amazed at the noticeable improvement in air-flow and drop in temperature in the cool room. The Food Science Australia study now provides strong independent evidence supporting what Aeris customers are already experiencing. The study will certainly assist Aeris Hygiene Services in discussions with all customers but particularly those with a global presence who by necessity have a high focus on food storage and hygiene standards and on reducing their corporation's impact on the environment.

In the quarter Aeris Hygiene Services continued to win new accounts in Australia including initial single-site contracts with a national food logistics corporation and a national poultry processor. It also successfully completed paid trials with a multi-national quick service restaurant chain.

### **Water Treatment**

In the quarter Aeris' wholly owned water treatment subsidiary, Aeris Biological Systems (ABS), successfully completed the second biofilm remediation at a BHP Billiton mine as part of the 12 month service contract signed in March 2007.

ABS commenced discussions with a number of other underground coal mines in Australia that had been identified as having some biofilm related issues.

The Company also began initial trials of its unique AerisGuard Multi-Enzyme Biofilm removal solution in the large reverse osmosis (RO) membrane application

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<sup>5</sup> "Evaporator" refers to the refrigeration box located inside the cool room (encompassing the evaporator heat exchange coil and fan).

market. RO membranes are very widely used including in desalination plants, water recycling and water treatment facilities and food processing and production facilities. Biofilm build up in these applications is very common and detrimentally affects the efficiency of the facility. In severe cases it can also damage the costly RO membranes.

Aeris is now working with Pall Corporation (the largest and most diverse filtration, separations and purifications company in the world) on a number of their problem sites in Australia. It is anticipated that success at these sites will result in a more formal partnership with Pall and potentially access to their global key customers.

### **Japan Market Update**

Aeris' distributor in Japan, Sumitomo 3M, has reported that is very pleased with progress with its relationship and supply contract with Duskin, the largest home air-conditioning cleaning company in Japan.

In the quarter Duskin launched a multi-media promotional campaign promoting its premium home air-conditioning service now including the AerisGuard Bioactive Treatment and positioning it as a unique offering in Japan. Initial customer interest in the new service (via their website and customer service centre) has been strong and sales are fully expected to grow on the back of increased awareness.

Sumitomo 3M is working with Duskin to introduce further AerisGuard products into the Japanese market in calendar 2008 and 2009.

### **Asia-Pacific Market Update**

Aeris continues to have positive and productive discussions with its distributor in Indochina, Trane, on expanding the relationship to cover the rest of the Asia-Pacific (A-P) region.

As part of these on-going discussions and on the back of the success in Indochina Trane has now recruited a new A-P Product Manager with specific responsibility to drive the AerisGuard across the region. This positive development highlights the value Trane places on the AerisGuard technology and its wish for it to become a standard part of their customer offering.

It is anticipated an A-P distribution agreement will be in place by the end of September 2007.

### **Finance**

Cash receipts from operations in the quarter (including interest and other income) were \$554,000 including the Company's highest quarterly receipts from customers.

Operating expenses continue to be well controlled with the net operating monthly cash flow in the quarter at \$268,000.

Aeris cash on hand at 30 June 2007 was \$2.6 million and the Company remains debt free.



Huw Jones  
Chief Executive Officer

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# 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 June 2007**

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from customers	410	1,356
1.2 Payments for		
(a) staff costs	(635)	(1,984)
(b) advertising and marketing	(185)	(798)
(c) research and development	(147)	(604)
(d) leased assets	(79)	(313)
(e) other working capital	(299)	(1,447)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	31	231
1.5 Interest and other costs of finance paid	(5)	(16)
1.6 Income taxes refund (including R&D tax rebate)	-	85
1.7 Other - Export Market Development Grant	80	150
- Rent received	18	79
<b>Net operating cash flows</b>	<b>(811)</b>	<b>(3,261)</b>

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

	Current quarter \$A'000	Year to date (12 months) \$A'000
1.8 Net operating cash flows (carried forward)	(811)	(3,261)
<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	(11)	(126)
(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>	(11)	(126)
<b>1.14 Total operating and investing cash flows</b>	(822)	(3,387)
<b>Cash flows related to financing activities</b>		
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)	-	-
<b>Net financing cash flows</b>	-	-
<b>Net increase (decrease) in cash held</b>	(822)	(3,387)
1.21 Cash at beginning of quarter/year to date	3,450	6,015
1.22 Exchange rate adjustments	5	5
1.23 <b>Cash at end of quarter</b>	2,633	2,633

+ 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	298
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 \$91,759 were made to Ramlist Pty Ltd, of which B Stang is a director. Payments for contracted R&D of \$46,411 were made to Novapharm Research (Australia) Pty Ltd of which Messrs M Stang, B Stang and S Kritzler are directors. Payments for corporate overhead, distribution and administration of \$159,734 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

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## 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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