

# CHAIRMAN'S & CHIEF EXECUTIVE OFFICER'S REPORT

On behalf of the Directors of Aeris Technologies Limited we are pleased to present the Company's Annual Report for the 2006/2007 financial year.

2006/2007 was a pivotal period in the Company's development as it successfully graduated into a diversified environmental services and technology organisation. In doing so, we have moved beyond the distribution of product only and become a service orientated total-solution provider thereby gaining full value from the company's intellectual property.

Importantly, Aeris is investing in market opportunities driven by a number of emerging global societal mega-trends including a demand for greener buildings and reduced energy consumption, a need to preserve and protect the quality of our limited water resources and a constant pressure to improve food hygiene standards.

The Company is now focused on providing its customers with increased system efficiency, energy reduction and improved food safety.

We commenced the year with the launch in Australia of our new cold storage environmental services company, Aeris Hygiene Services (AHS). AHS remediates and protects the cold storage refrigeration systems of large, multi-site customers in the food supply chain. The key objective of AHS in its first 12 months was to develop the business model and operational processes in this new business opportunity. AHS also won service work with a number of high profile customers including Red Rooster, Steggle's and Golden State Foods.

AHS is focusing on highly scaleable national and international accounts to build a critical mass in the attractive food cold supply chain which embraces processors, transport and retail. The Company is currently putting in place

channel partners to access key accounts both domestically and internationally and is now looking forward to the planned launch of the cold storage service business in the USA in the second half of 2007/2008.

There has been a major focus on the USA market since the Company was awarded regulatory approval for its core product by the US Environmental Protection Agency in March 2006. To support the expected growth in this core market, Aeris recruited a seasoned American senior executive, Ronald Bacskai, to head up the Company's US operations. Soon after Ron's arrival, Aeris acquired a majority position in a high growth air-conditioning environmental services company, renamed Aeris Atlantic LLC.

Aeris is budgeting strong revenue growth from its direct USA air-conditioning business unit as Aeris Atlantic continues to secure service contracts with key accounts (as it has to-date with Trump Casinos, Harrah's Casinos and Wyeth) and the Company expands the model to other US States.

In June 2007, after 18 months of trialing, the Aeris USA team achieved a milestone on the signing of a supply agreement with a Fortune 500 pharmaceutical corporation for its AeriGuard™ air-conditioning remediation and protection system. Importantly, this was Aeris' first contract based on predicted energy savings from the annual application of the AeriGuard service solution. This agreement is anticipated to generate near term revenues with substantial growth over the next 2 years and in turn will support the acquisition of similar environmental service contracts with other global corporations.

The Company's growth strategy in Asia through 3M and Trane continues to gain momentum. In October 2006, Sumitomo 3M signed a two-year

distribution agreement with Aeris. 3M's main focus has been on the high growth residential air-conditioning cleaning market in Japan. And its efforts were well rewarded earlier this year with a contract to supply Duskin, the dominant service company in the residential sector, with the first of the AeriGuard products. 3M are now working with Duskin to introduce the rest of the AeriGuard product range.

Aeris currently have a formal distribution agreement with Trane in Indochina (primarily Thailand and Vietnam). As a result of the success in Indochina the corporation has trained its local teams in Singapore, Hong Kong, the Philippines and South Korea and has importantly also recruited a dedicated AeriGuard Product Manager to drive the business across the region. An extended agreement covering Asia (including China) is expected to be completed in the near term, leading to growing revenues from this world leading air-conditioning manufacturer and service corporation as it actively promotes the range of Aeris solutions across the region.

The Aeris water treatment operation is the newest business division in our portfolio and is being built on relationships with a number of large customers and suppliers in the global water industry who are seeking environmental solutions to their growing biofouling issues. The signing in March of this year of a 12 month service contract with a BHP Billiton underground coal mine in Australia was the trigger for Aeris to increase investment in the water treatment business. The Aeris water treatment team has subsequently successfully completed an application of its biofilm removal technology at a second BHP Billiton mine. It is anticipated that further underground mines and other large industrial operations will implement the AeriGuard biofilm

removal technology in 2007/2008. In addition Aeris' activities in the exciting new reverse osmosis membrane remediation application are expected to be strongly supported by an international partner from the beginning of calendar 2008.

The Aeris board and management team are fully focused on a scaleable international business based on our positioning as an emerging environmental services corporation. This is at a time when the world is rapidly focusing on critical global environmental issues including energy reduction, food safety, the quality of the air we breathe and water preservation and safety.

We would like to thank all our shareholders for their support and look forward to continuing to build value in your environmental services and technology company in the core businesses of energy reduction, cold storage and water treatment.



Maurie Stang  
Chairman



Huw Jones  
Chief Executive Officer

