

30 April 2021

Company Announcements Office
Australian Securities Exchange

QUARTERLY REPORT – APPENDIX 4C

In accordance with ASX Listing Rule 4.7B, Aeris Environmental Ltd (Aeris or the Company) presents its March 2021 Quarterly Activities Report and attaches its Quarterly Cash Flow Report – Appendix 4C.

Financial Results

- Revenue for quarter was \$1,040,000. Much of built environment in Aeris' global markets has been essentially 'locked down' and offline in terms of occupation and usage. This has had a material impact on revenue.
- Year-to-date (YTD) revenue (unaudited) to 31 March 2021 is \$6,147,837, with gross margin of 40%, reflecting lower margin NSW Health business.
- Cash receipts were \$1,900,000 for quarter (2020-21 financial YTD total is \$9,990,000).
- YTD net cash from operations (unaudited) increase of \$29,000 after adjustment for balance sheet movements (increase in inventory of \$12,000), increase in trade creditors of \$1,408,000 and decrease in trade debtors of \$3,438,000.

Operational Summary

- Forthcoming launch of new Aeris Defence hospital-grade hard surface disinfectant with proprietary residual protection, addressing volume markets with regulatory approval in multiple markets, including Australia.
- Near-term establishment of a Wholly Owned Foreign Entity (WOFE) in China, which will enable Aeris to qualify for both State and Federal contracts in China.
- First marquee client in the USA for AerisGuard Bioactive Filter Treatment and AerisGuard Bioactive Surface Treatment with installation in Milwaukee County Transit System (MCTS).
- Pivotal independent testing of Aeris Smart Polymer in China, showing effective bactericidal and fungicidal properties.
- Evolving regulatory environment globally, including updated guidance from the USA Environmental Protection Authority (EPA) on allowable residual protection claims and Section 18 emergency exemptions.
- Aeris Active and Aeris Defence cleared for sale in Indian market with listing under Central Drugs Standard Control Organisation.
- Protocols agreed and testing booked for AerisGuard Bioactive Surface Treatment to approve COVID-19 kill claims (on the USA EPA List N).
- Two new Non-Executive Independent Directors appointed to Board, being Dr Abbie Widin and Dr Jenny Harry (as announced to ASX on 2 March and 21 April 2021).

Commentary

North America

Aeris is working closely with its US distributors (notably Goodman, part of the Daikin Group, and Powertron Global), key customers (such as Motili) and key accounts (such as Milwaukee County Transit System (MCTS)), with attention on distribution / sales of its core Heating, Ventilation and Air-Conditioning (HVAC) hygiene and maintenance range, heading into the USA summer.

The Company is actively promoting its two products with existing Environmental Protection Authority (EPA) approvals for use in HVAC and Refrigeration – AerisGuard Bioactive Filter Treatment and AerisGuard Bioactive Surface Treatment – for incorporation into ‘safe re-opening’ plans for protecting HVAC filters and surfaces against colonisation of bacteria, fungi and viruses, including COVID-19.

The MCTS has successfully installed the air filtration product on half of its fleet. Installation on the remaining half will be finished within the next six to eight weeks. This initial product was provided by Aeris, as the Company intends to use this project as a case study for a broad awareness campaign with Federal, State and Local authorities.

With the change in Federal Government Administration, the USA EPA appears to no longer place emphasis on Section 18 emergency exemptions for new surface disinfectant applications that target COVID-19. Aeris has now secured independent laboratory time, with protocols agreed, for AerisGuard Bioactive Surface Treatment to be tested against additional organisms. The aim of this additional testing is to increase approved claims registered with the USA EPA (allowing COVID-19 kill as well as being added to List N for general purpose disinfectants).

China

Relevant authorities in Shanghai (China) have advised that the Company’s recent Wholly Owned Foreign Entity (WOFE) application is progressing to approval, and that it will soon be in the position to incorporate this WOFE and commence operations in China. Aeris’ WOFE in China will be in a positive position to develop strategic relationships and joint ventures, in accordance with local ownership requirements, opening both State and Federal opportunities to the Company and its partners. These opportunities were previously impacted by Aeris not having an approved entity in China and resulting inability to peruse direct activities in this important market.

The Company is in negotiations for domestic manufacturing and strategic raw material sourcing in China, in order to positively impact Aeris’ competitiveness and cost structure globally.

The Company has received positive independent test results on several products that required additional regulatory and market testing, specifically for the Chinese market, demonstrating the key differentiated parameters that were anticipated.

Environmental Hygiene

Aeris’ recently-launched ‘Safe Environments – Clean Green Hygienic’ programme targets building owners, occupants and facility managers. The key driver of this programme is to provide an integrated accreditation utilising the Company’s hygiene range, delivering the highest levels of independently-tested, environmentally-conscious products, with long-lasting residual efficacy and, importantly, chemical inter-compatibility. This provides measurable and material benefits for all stakeholders and occupants.

Aeris Defence will be well positioned against its key competitors, both in terms of cost and its performance capabilities. Several significant customers have shown interest in Aeris Defence as a volume product in the business-to-business and speciality consumer markets.

Aeris is working on a new presentation of paper products for hard surface disinfection and skin hygiene, with the aim of forming a comprehensive and compelling range for both distributors and customers, and addressing the new requirements of environmental hygiene.

Many global markets are expected to progressively re-open during the northern summer and, accordingly, the Company is investing resources in supporting its dealers with marketing and public relations activity, and with the addition of key personnel, including new marketing, sales and channel management resources.

Mould Remediation

The Company is repositioning its range of mould remediation products to focus on differentiated claims and capabilities to build on its initial success with key mould remediation projects in Australia. Aeris' products are not only highly effective, but provide long-term protection against surfaces becoming re-contaminated with mould, which has been a major challenge for the Company's customers and insurers.

Aeris' team is supporting several remediation projects due to the recent flooding in NSW. The Company has been invited to submit to a national insurers' panel of vendors, which, if successful, should result in multiple projects in large industrial and commercial facilities.

Corrosion Protection

Aeris Corrosion Protection Services is focussed on several original equipment manufacturers (OEMs) and downstream customer opportunities both in Australia and internationally. This business is now progressively re-opening as economic activity expands, particularly in the Southern Hemisphere. To-date, Aeris' expansion in OEM corrosion has been significantly impacted by the Company's inability to travel and to conduct plant trials. However, Aeris is now seeing increased demand and enquiry from some international customers, which is likely to grow as international travel progressively re-opens.

Finance and Operations

Almost all of the Company's international markets have been impacted by second and third waves of COVID-19. There has also been a reactive and evolving regulatory environment requiring substantial re-testing of products with significant delays in accessing accredited laboratories. This has negatively impacted Aeris, as well as many other market participants. Much of the built environment in the Company's global markets has been essentially 'locked down' and offline in terms of occupation and usage. This has had a material impact on sales opportunities.

In recognition of both the opportunities and challenges presented by the global business environment, Aeris is responding with products targeting ongoing environmental hygiene needs, a significant investment in regulatory affairs and new product development, and building its distribution channels and customers in key markets.

The Company is well capitalised, debt free and rolling out important strategic initiatives that support growth potential.

Year-to-date (YTD) revenue (unaudited) to 31 March 2021 is \$6,147,837, with a gross margin of 40%, impacted by lower margin NSW Health business. Cash receipts were \$1,900,000 for the quarter (the 2020-21 financial YTD total is \$9,990,000).

There is a YTD net cash from operations (unaudited) increase of \$29,000 after an adjustment for the balance sheet movements (increase in inventory of \$12,000), an increase in trade creditors of \$1,408,000 and a decrease in trade debtors of \$3,438,000.

As at 31 March 2021, Aeris has (unaudited) net assets of \$16,276,000, including cash-at-bank of \$12,364,000, trade debtors of \$2,004,000 and inventory of \$3,500,000.

Related Party Transactions

Payments to related parties and their associates during the quarter were: property outgoings and other charges paid to the Company's landlord, Ramlist Pty Ltd, of which Non-Executive Director Maurie Stang is a director (\$4,000); marketing and operational services provided by Ensol Systems Pty Ltd and Teknik Lighting Pty Ltd, of which Non-Executive Director Maurie Stang has an indirect beneficial interest through a trust (\$70,000); research and development, and other expenses, paid to Novapharm Research (Australia) Pty Ltd on a cost recovery basis, of which Non-Executive Directors Maurie Stang and Steven Kritzler are directors (\$110,000); rent, corporate overheads, distribution and administration expenses paid to Regional Healthcare Group Pty Ltd, of which Non-Executive Director Maurie Stang is a director (\$59,000); and Non-Executive Director's fees of \$14,000 paid to Michael Ford.

Summary

Aeris has made a pro-active investment in regulatory registration, and the development of several new products and packaging presentations, in response to customer and distributor demands.

The recent successful testing and validation in the USA of one of the Company's key HVAC products, AerisGuard Bioactive Filter Treatment, has been supported by the adoption of the product in the MCTS. Aeris is now promoting its capabilities through its distribution network internationally.

China remains an important opportunity for the Company, and Aeris believes that the establishment of its WOFE in Shanghai will accelerate the commercialisation of the Company's products in that market.

Allied to this activity is the programme of sourcing key raw materials directly from strategic partners in China and establishing, over time, (domestic) Chinese manufacturing of certain products, where the opportunity dictates that this would provide a strategic advantage in both the government and private sectors.

Aeris Defence represents an important opportunity for Aeris as it targets broad customer requirements, including attractive economics, ease of application and validated performance. Importantly, regulatory approval has been gained or is in progress in several key markets, including Australia, and production capability has been significantly expanded.

Aeris Environmental Ltd

Maurie Stang
Chairman

Peter Bush
Chief Executive Officer

This Report was authorised by the Board of Directors.

About Aeris Environmental Ltd

The Company develops, manufactures and markets proprietary, environmentally-friendly technology that drives measurable improvements in asset performance and sustainability. Aeris' whole-of-system approach ensures that systems perform better, are safer, last longer and cost less to run.

The Company's products solve real world problems more effectively than conventional toxic chemicals. Uniquely based on validated, green formulations, Aeris' enzymes and treatments with residual protection provide long-term remediation, and prevention of mould, bacteria growth, corrosion, and improved hygiene.

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Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Aeris Environmental Ltd

ABN

19 093 977 336

Quarter ended ("current quarter")

31 MARCH 2021

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (9 months) \$A'000
1 Cash flows from operating activities		
1.1 Receipts from customers	1,900	9,990
1.2 Payments for		
(a) research and development	(210)	(468)
(b) product manufacturing and operating costs	(1,290)	(6,168)
(c) advertising and marketing	(94)	(314)
(d) staff costs and Directors' fees	(585)	(1,677)
(e) administration and corporate costs	(947)	(2,422)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	4	4
1.5 Interest and other financial costs	-	(23)
1.6 Income tax refund received (including R&D tax offset)	-	411
1.7 Government grants and tax incentives	-	84
1.8 Others (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(1,222)	(583)

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
2 Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(11)	(19)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
2.3 Loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	(11)	(19)
3 Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	-	-
3.4 Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	-	-
4 Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	13,588	12,949
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(1,222)	(583)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(11)	(19)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	-	-
4.5 Effect of movement in exchange rates on cash held	9	17
4.6 Cash and cash equivalents at end of period	12,364	12,364

Consolidated statement of cash flows

5 Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	1,786	3,011
5.2 Term Deposits	-	-
5.3 Bank overdrafts	-	-
5.4 Deposits at call	10,578	10,577
5.5 Cash and cash equivalents at end of quarter (item 4.6)	12,364	13,588

6 Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1 Aggregate amount of payments to related parties and their associates included in item 1	257
6.2 Aggregate amount of payments to related parties and their associates included in item 2	-

7 Financing facilities available

Note: The term "facility" includes all forms of financing arrangements available to the entity

Add notes as necessary for an understanding of the sources of finance available to the entity

	Total facility \$A'000	Amount drawn \$A'000
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	-	-
7.5 Unused financing facilities available at quarter end		-

- 7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

Not applicable

8 Estimated cash available for future operating activities

	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(1,222)
8.2 Cash and cash equivalents at quarter end (item 4.6)	12,364
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	12,364
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	10

- 8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:

8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Not applicable

8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Not applicable

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Not applicable

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 30 April 2021

Authorised for release to the market by the Aeris Board of Directors.

Notes:

- 1 This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so
- 2 If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 107: Statement of Cash Flows apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
- 3 Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
- 4 If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
- 5 If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.