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Advanced Nanotechnology Limited has been awarded a A\$1.95 million AusIndustry Commercial Ready Grant for the development of a new range of nanotechnology products known as transparent functional coatings and films. What is the relationship between Advanced Nano's current products and the new products to be developed by the Commercial Ready Project?

CEO Paul McCormick

Our current and future products feature the high transparency obtained using our nanoparticles. For example, sunscreens containing our ZinClear[®] are, in effect, transparent functional coatings, providing ultraviolet (UV) protection for the skin sufficient to attain a sun protection factor (SPF) rating of 30+ without chemical UV absorbers.

While NanoZ[®] was our first transparent functional coating additive product, we recently introduced NanoZ[®]-AQ, our water based zinc oxide additive for low volatile organic compounds (VOC) paints.

The Commercial Ready project is providing assistance with early stage commercialisation of this product. New coatings providing properties such as improved scratch resistance, anti-microbial and UV protection will also be developed in the project.

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What impact will the Commercial Ready Grant have on the progress of new products to commercialisation?

CEO Paul McCormick

The project encompasses the full range of activities, from R&D through to early stage commercialisation of our new products. Proof of concept and early stage commercialisation will involve collaboration with manufacturers and users of the final products.

Following completion of this project we expect to have completed prototype development and early stage commercialisation of a range of products that will provide the opportunity for significant future growth in sales.

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Advanced Nano recently introduced NanoZ[®]-AQ at the Eurocoat 2006 trade show, where you participated with your European distributor, Cornelius Group. What has been the customer response to this product?

CEO Paul McCormick

We've received an exceptionally positive response for our NanoZ[®]-AQ for wood coatings and textiles. Wood and textiles are degraded by the UV in sunlight and NanoZ[®]-AQ provides a long lasting effective UV barrier for wood and textile products, which is especially valuable for indoor high-quality wooden flooring and wall textiles.

The wood coatings business is growing strongly in Asia. We attended ChinaCoat in Guangzhou during November, and introduced our product range to a number of quality distributors in Asia. The initial response has been very promising.

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In relation to the range of new nanotechnology products can you explain "transparent functional coatings"? How are they used?

CEO Paul McCormick

Transparent functional coatings and films are a new nanotechnology development where nanopowders are incorporated into a transparent product to provide additional functionality such as blocking UV light, antistatic properties or scratch resistance.

By building additional functions into transparent products it's possible to significantly improve existing products as well as develop entirely new products that provide multiple or even active functions.

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What is your advantage in transparent functional coatings? What is the evidence of market acceptance?

CEO Paul McCormick

Feedback from existing and potential customers has consistently shown that the MCP[™] technology makes a unique and very high quality particle, which allows our products to be differentiated on the basis of superior transparency and functionality. We've successfully competed in the international marketplace for the last three years with our ZinClear[®], Alusion[®], Nanoz[®] and Cercat[™] products.

Advanced Nano's competitive advantage is in its process technologies, which deliver superior transparency in the critical active ingredient of the final product. Our nanoparticle dispersions exhibit the highest level of transparency.

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What market segments are available to you given the attributes of "transparent functional coatings"?

CEO Paul McCormick

Architectural coatings, industrial coatings and packaging are the main market sectors that we are focussing on. These markets are all seeking growth in transparent products.

Product applications in the architectural and industrial coatings markets are similar. By incorporating dispersed nanoparticles of zinc oxide, alumina and conductive ceramics into the products it is possible to develop high value clear coatings with superior protection from UV, abrasion resistance, and unique optical effects.

There are significant opportunities in the development of transparent wear resistant coatings. Many products in everyday life, such as timber floors, countertops and automobiles, require transparent coatings that provide protection from abrasion and scratching. We expect MCP™ aluminium oxide nanoparticles will be well suited to this application due to their high hardness, and excellent transparency.

A key innovative step will be the development of strong coupling of the alumina nanoparticles with the various polymer matrices to enable the enhanced properties to be achieved.

In the packaging market there is continual product evolution as companies search for packaging solutions to extend the shelf life of their products. Sunlight and store lighting cause product spoilage, colour fading, vitamin loss in foods, and generally compromise the most carefully designed product, limiting shelf life and potentially damage brand image and credibility.

Benefits of our particles for producers are flexibility in packaging design and enhanced product quality. A new direction in the packaging industry is transparency used in conjunction with special effects and deep colours aimed at providing greater product differentiation. We see the packaging sector as providing early markets for our products being developed.

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What is the market size that is addressable by nanoparticles? Can it be quantified?

CEO Paul McCormick

The nano-additive market for transparent functional coatings that we're targeting is estimated to be worth over US\$800 million. Of this, the architectural coatings market is potentially worth over US\$100 million in the US and a similar potential market exists in Europe and Japan. The customer base is large with approximately 2000 coating companies in the US and Europe that make and sell architectural and specialty coatings.

The overall industrial coatings market is estimated to be about US\$20 billion worldwide. Industrial furniture and the auto industry make up roughly 25 per cent of the market and will be the major users of clear coats that provide abrasion resistance and UV protection.

These industries are already extensive users of nanomaterials and the nano additive market is expected to be worth in excess of US\$200 million.

Whilst the customer base consists of fewer large established players than for architectural coatings, the distribution chain is the same. The customer requirements are also similar and Advanced Nano will use the distribution network established for NanoZ[®] complemented by direct contact with major customers.

In the food and beverage packaging sector sales of nanotechnology products worldwide jumped from US\$150 million in 2002 to US\$860 million in 2004 according to a study by industry consultant Helmut Kaiser. It's predicted that in the next 10 years nanotechnology will affect 25 per cent of the food packaging business.

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Is your customer base in the packaging sector primarily large global corporations?

CEO Paul McCormick

Yes, the customer base consists of a relatively small number of large customers with extensive product development activities. Product development lead times are relatively short because of the dynamic nature of the market and because many products do not require long term durability.

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What level of collaboration or partnering do you envisage? Can you give an example of how you will work with industry partners developing new products?

CEO Paul McCormick

One example is in the area of specialty pigments. We've had an informal collaboration with a major overseas company over the past couple of years, aimed at optimising our platy alumina particles for use in special, high value pigments. The collaboration involves bringing together our expertise in the manufacture of platy particles with our collaborator's expertise in coating manufacture for specific products.

We expect to finalise an agreement with this company to formalise our collaboration, which will involve both proof of product and early stage commercialisation work. Other collaborations involving coatings companies and plastics companies aimed at specific applications for transparent functional coatings are also at hand.

I cannot mention any more specific details, except to say that the collaborations are highly strategic for our customers and for us, and provide the potential for us to capture an important share of the large market for innovative inorganic pigments in high-value functional packaging and coatings.

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In FY06 international sales accounted for 85 percent of Advanced Nano's total sales. Given you are headquartered in Perth, Australia and current and future markets for your products are primarily overseas what is your sales and distribution strategy?

CEO Paul McCormick

We're initially accessing the market through our existing network of distributors set up for NanoZ[®], together with strategic alliances with key collaborators. Our success with NanoZ[®] has enabled us to identify the key partners and customers with which to develop and test early prototypes.

We are also appointing a number of global business development managers within Advanced Nano. These internal resources will be focused by application and will provide an essential role in supporting our global customers and distributors.

For the medium term we're assessing the feasibility of regional offices in Asia, Europe and North America to improve our response and service in each market.

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What are your revenue expectations for the year ending June 2007?

CEO Paul McCormick

The revenue outlook for the full year is encouraging. Demand is expected to continue growing and the effect of new product launches and process refinements are expected to further improve our operating margin over time.

For the December 2006 half year we haven't changed our view since the September quarterly report. Although in the first quarter we saw seasonality in personal care product sales and the reduction of inventories by some customers give us a slow start to the year compared with 2005, we believe our first half revenue will exceed that of the December 2005 half year. We are anticipating strong growth in the second half of the year.

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Thank you Paul.

For more information about Advanced Nanotechnology Limited, visit www.advancednanotechnology.com or call Dr Paul McCormick on +61 8 9458 0800

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