ENVIRONMENTAL SOLUTIONS INTERNATIONAL LTD

ANNUAL GENERAL MEETING
Tuesday, 25 November 2003

CHAIRMAN'S NOTES

1. *INTRODUCTORY REMARKS*

The Board was disappointed to report a loss for the 02/03 year. It was due to 4 major factors:

(i) The run-off of contracts during the year.
(ii) The heavy cost of tendering and the long delays in the evaluation of tenders prior to the award of new contracts to the company.
(iii) The decision by management and the Board to retain experienced field staff and those with specialistic process expertise whilst awaiting decisions on tenders submitted by the company.
(iv) The expensing of around $1.6 million on marketing and commercialising the company's ENERSLUDGE™ technology.

Although disappointing the 02/03 year is behind us and I would like to focus on the period ahead.

2. *FIRST HALF & FULL YEAR PERFORMANCE*

In the first half there have been delays in the award of new contracts which ESI has won. Although a number of new contracts have commenced the early stages of contracts are occupied with design, site establishment, ordering of equipment, and the like. These are low billing activities and the larger revenues do not begin to flow until structures start to appear on site and equipment is installed. For this reason the result for 03/04 will be heavily weighted to the 2nd half with the 1st half now likely to record a loss of around $¾ M. The end of year result is predicted to show a full year profit. The level of profit will depend on the progress of the new contracts. The company still retains a healthy cash position.

3. *WATER BUSINESS IN AUSTRALIA NOW RELATIVE TO 5 YEARS AGO*

The importance of water conservation and recycling has become increasingly recognised in Australia in the last 5 years. Some of the reasons for this are:

(i) Dams across the country are only partially filled, e.g. Perth's dams are filled to only 38% capacity. In other parts of Australia reservoirs are down to little more than 6% of capacity.
(ii) 95 of the 125 shires in Queensland are "drought declared" whilst over 50% of them are receiving Federal Government "drought funds".
(iii) Water restrictions are in force in most capital cities and are predicted to stay that way for the foreseeable future.
(iv) Water consumption has increased by 65% since the early 80's and now stands at a staggering 3400 litre per person per day. This figure includes that used for irrigation. This rate of consumption is not sustainable and certainly not in the light of CSIRO's rainfall predictions.
(v) In Western Australia, two step changes in rainfall over the last 30 years have had a profound effect on runoff to dams. Runoff is down by 42%! CSIRO climatic predictions for Perth indicate that by 2030 rainfall will be 20% lower, and by 2070, 60% lower, than today's levels.
(vi) Finally the country's dry land salinity problem, which dramatically affects our rivers, is increasing, with no certain answers to reduce the problem, in sight.

These problems have resulted in a large push, in the majority of states for the increased use of recycled water.

All of this means increased opportunities for companies that have the technology and the people, to provide high quality drinking water, treat storm water and wastewater so that they can be recycled and reused, and replace drinking water with high quality recycled water for use in certain industries. ESI currently has the technology and capability to produce high quality drinking water from sewage effluent. Given the water crisis in the world's driest continent, it is high time an informed public debate began about the use of recycled water.

4. RECORD ORDER BOOK

For the last 5 years, ESI's order book has been around $20M. During the latter part of 02/03 the tendering activity in the company increased significantly especially for larger scale contracts. As a result, ESI's current order book is approximately $75M of which we expect to receive around $15M in the first half of 03/04. There are good prospects of increasing the order book by another $15 – 20M with the next 6 months. Management is also tracking future projects valued at around $150M and we would expect to win our fair share of this future work.

5. ENERSLUDGE™

As Shareholders will recall, since the completion of the Subiaco ENERSLUDGE™ Demonstration project 2 years ago, ESI has been pursuing a strategy to commercialise ENERSLUDGE™ in as many markets as possible by:

- Working with strategic partners in the key markets around the world to market, secure and implement ENERSLUDGE™ projects in their licence areas.
- Supplying a technology package to the strategic partners for each project.
- Pursuing projects in our own capacity whilst the network of strategic partners is being set up.

We have a number of leads in USA, Europe and Japan which we are actively pursuing. We are continuing to pursue these opportunities. However, progress has been slower than we expected because traditi0nal methods of disposal such as land application continue to be used, despite the environmental problems caused. For example, although EU regulations to ban the use of sludge as land fertiliser were to be implemented 2 – 3 years ago, these have been delayed.

As a result of this we have reviewed our strategy and have concluded that, whilst it is possible to continue to proceed alone, it would be preferable to find a larger Strategic Partner with a strong base in Europe, North America and markets outside Australia.

As the disposal of sludge in environmentally unfriendly ways becomes unacceptable, ENERSLUDGE™ will come to be seen as an ideal alternative. Although this change in thinking has taken longer than we had hoped, your directors remain confident that in the foreseeable future ENERSLUDGE™ will be seen as a relatively cheap and environmentally friendly way of disposing of sludge.

The Board remains optimistic for the future.