Envirozel

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2 May 2005

Dear Shareholders

Those of you who were in attendance at the Annual General Meeting held on 30th November 2004 will recall that your Directors undertook to provide regular updates on actions taken to enhance the company's prospects.

On behalf of myself and fellow Directors, Geoff Coleman, Peter Jones, and Andrew Powis, it gives me pleasure and satisfaction to be able to assure you that your company is now in good shape, with excellent future prospects. Some of our recent positives include:

- **Nu Source Water:** formal approval for utilisation of the recycled water produced by the multiple water re-use (MWR) technology has been received from the Victorian Department of Human Services (DHS) and Environmental Protection Authority (EPA). A media release detailing this important announcement has been sent to all appropriate outlets (copy attached), and I suggest you read it.

- **Syfon Systems (Australia):** The business continues to trade profitably, with both turnover and profits ahead of budget. Furthermore, confirmed orders in hand, in excess of $3.8m as of 1/4/05, will ensure further growth and prosperity. Current and recent contracts include the Spencer Street Station redevelopment, MCG Northern Stand, MacArthur and Penrith Shopping Centres and the Helensvale Shopping Centre.

- **Syfon Systems (Malaysia):** Confirmed orders in hand exceed $800k as of 1/4/05 meaning that we will comfortably meet our current turnover and profit targets with the business ready for growth in the new financial year. In addition to being a profitable business in its own right, the Malaysian office will be developed as a source for other companies in the Group to purchase materials at cheaper prices than can be obtained for equal quality goods in Australia.

- **Zeolite Australia Pty. Ltd:** the decision to sell-down our stake from 55% to 15% has already proven to be correct. Not only have we eliminated the on-going operational losses (for the first time in the history of the company) but the business itself, under the majority ownership and control of the Joint Venture Partners, is now trading profitably, and our minority shareholding should become a valuable asset. It is worth noting that for the 4 month period July to October 2004 (the new business took over on 1st November) our trading losses amounted to approximately $300,000. This does not include any corporate costs, or the asset write-downs which were necessary for the sale.

- **Share Options:** we have re-purchased 8,347,100 options from various holders, for 1.43¢ each. A proposal to cancel these options will be an agenda item at the next shareholders meeting. In the meantime a further 100,000 options have lapsed, leaving only 5,200,000 outstanding, of which 3,000,000 are now controlled by me. An additional 1,500,000 options will soon be issued to the former owners of Armpower Pty Ltd, from whom we acquired the Syfon business. This matter is referred to later on in the Newsletter.

- **Share placements:** Our largest Shareholder, Catholic Church Insurances have continued to demonstrate their confidence in the company, by a further placement of $150,000 for 1.5 million shares at 10¢ each.

- **Directors:** Mr. Tony Gilberto resigned from the Board during March 2005, having served as a Director since September 2002. The company is grateful for the contribution he made during his term of office.

- **Acquisitions:**

  (a) The finalisation of the purchase of the Syfon Group has been completed, in accordance with the contracts signed last year. One of the provisions in the acquisition was an earn-out clause, setting profit targets to be achieved over 3 years. The good news is that the target was achieved in one year, so that the final issue of shares and options to the vendors can now be completed.

  (b) Heads of agreement were signed in December 2004 to acquire the business of IBC Water, a Brisbane based organisation with a long and successful history. The acquisition has not been put to shareholders for approval, as all conditions nominated have yet to be met.

  (c) Discussions are being held with other potential acquisitions, all being privately-owned businesses with a successful background, connected to the water industry.

  (d) An Acquisition Policy has been adopted, a copy of which can be made available on request.

- **Financial performance:** whilst both Syfon Australia and Syfon Malaysia are achieving particularly good profits, ahead of budget, the following points need to be recognized for this financial year:

  - The Zeolite trading losses of approximately $300,000, plus the write-off of associated balance sheet items.

  - On-going costs in the development of the NuSource technology have exceeded $350,000 only a small part of which can be capitalized.

  - Although corporate costs have been significantly reduced, they are, as with every other listed public company, fairly substantial.

As a result, it is probable that the company will show an operating loss for the current financial year, but the Directors are confident that we will show an operating profit for the current calendar year.

- **Funding:** because we acquired the business of Syfon Systems, not the company itself, it became a virtual start-up, meaning that we needed to fund debtors and stock from scratch, whilst paying wages, creditors and administration costs. Furthermore, because it works as a contractor in the building industry, the money held back- usually up to 15 months - in retentions is considerable. To date we have not been able to obtain bank guarantees as a substitute for retentions, so funding of a growing business is a demanding, and continuing, challenge. As the need arises, we will be seeking funds for appropriate acquisitions.

- **Director support:** The Board members continue to show their confidence in the future of the company, as evidenced by:

    - Peter Jones continues to increase his shareholding, both by placement and on-market, with his current holding standing at about 1.8M.

    - Andrew Powis, through his company Powis Enterprises Pty Ltd, has become our second largest shareholder.

    - Geoff Coleman has lent the company $50,000 for 3 years.

    - You will recall that at the 2004 AGM, I announced that I had lent the company $100,000, and that, at the appropriate time I would seek shareholder approval to convert the loan to equity. In the meantime I have also increased my shareholding to 1.2M. At the next Shareholders meeting a resolution will be submitted seeking approval to vary the 2 Director loan agreements enabling them to become capable of being converted to equity.

- **Communications**: this Newsletter is being sent to you by mail, and I trust you find it to be of interest. We are currently upgrading our web-site, with an expected operational date of mid June. Items of interest on it will be placed regularly so you can be kept informed of developments as we progress the company, and provide benefits to shareholders. Our website can be located at: www.envirozel.com

Please feel free to contact me at any time if you wish to discuss any matters relating to the Company.

Yours sincerely

Gordon McKern
Executive Chairman

ENVIROZEL LIMITED
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4 April 2005

Manager Companies,
Australian Stock Exchange
20 Bond Street
Sydney NSW 2000

Dear Sir,

Media Release

The following is an Envirozel Limited media release, relating to the approval of the Multiple Water Re-Use Technology by the Department of Human Services and Environment Protection Authority.

FLEMINGTON'S FAMOUS ROSES TO GET 'CLASS A' WATER FROM SEWERAGE

Listed Envirozel Ltd. has become the first Australian company to achieve government approval for the direct treatment of sewerage effluent into Class A reclaimed water using their revolutionary multiple water reuse (MWR) technology.

Envirozel's Executive Chairman, Gordon McKern, said the decision by the Victorian Department of Human Services and the Environment Protection Authority to approve the system represented " a major step forward not only for the company but in providing sustainable and viable alternative water supplies in Australia and internationally."

Mr McKern said that a demonstration plant had been installed at the Flemington racecourse, venue for the world famous Melbourne Cup, where it has been extensively tested to confirm its capability to exceed the new water quality objectives being established for Class A reclaimed water.

The system, marketed through Envirozel's subsidiary, NuSource Water Pty. Ltd., would also be used in the new "green" headquarters complex (CH2) of the Melbourne City Council where water would be used both in building and for external uses such as fountains and street sweeping.

Mr McKern said that the Flemington installation was probably the first approved Class A "sewer mining" water reclamation plant in the world that does not require any biological treatment.

" Certainly we are unaware of any other system that has anything like the capabilities we can provide; with water treated in **minutes rather than weeks**".

With the approval being based on the new tighter water quality guidelines it would allow projects to proceed immediately without fear of the new regulations holding up development approvals.

" With every Government and Water Authority in Australia – and indeed beyond our shores – seeking ways to ensure improved security for water supply, in particular the replacement of potable with reclaimed water, we are confident of a bright and successful future for NuSource Water" Mr McKern said.

"It is leading edge technology designed to meet one of our greatest environmental challenges," Mr McKern said.

(In Australia Class A water can be used without restrictions and as a replacement for potable water for effectively all uses where it is not consumed directly such as toilets, clothes washing, cooling, irrigation and for most large scale industrial uses.)

End of media release

Yours faithfully

Gordon McKern
Chairman