

CHAIRMAN'S ADDRESS

Bias shown for 'clean coal' technology in the wake of the Federal Government's announcements of grants from the Low Emission's Technology Demonstration Fund (LETDF) has required EnviroMission to take a renewed approach to how, when and where Solar Tower power stations will be developed.

LETDF provided a one-off opportunity for EnviroMission to compete for substantial funding – the first round of significant funding available for renewable energy development since EnviroMission listed in Australia in 2001.

Following extensive briefings by AusIndustry (the federal agency appointed to manage the Federal Government's LETDF scheme) EnviroMission took the decision to compete for funding for a 50MW Solar Tower power station in the knowledge that the unique characteristics of the technology within the energy market stood to outstandingly meet the objectives and targets of the demanding merit criteria of the scheme.

The decision to demonstrate the technology with a 50MW proposal was based on the view that the capital cost of a larger ie 200MW proposal wouldn't be competitive within the LETDF scheme if the first round grants totaled around \$250 million on a 2:1 dollar basis.

EnviroMission's application sought \$100 million with \$200 million to be raised in the private sector with the assistance of Macquarie Bank.

The application also demonstrated how EnviroMission would meet and exceed the Federal Government's objectives more than a decade ahead of the targets sought in the scheme.

The headlines of EnviroMission's application were:

- 9500MW of clean renewable electricity generation in Australia by 2017 to deliver 2% of the stationary energy emissions footprint of Australia (merit criteria required 2% by 2030).
- Australian developed intellectual property with strong export potential demonstrated through existing agreements to develop the technology in China and the United States.
- Technology would make prudent use of existing grid infrastructure – embedded and distributed.

EnviroMission's application outlined the merit of new energy innovation with strong export and greenhouse gas abatement potential from a clean energy technology to add new jobs and wealth to regional Australia.

It is unmistakable the Federal Government has prioritized 'low emissions' over 'no emissions' technologies in the distribution of grants in the first round of the LETDF.

An additional cause for frustration with the LETDF decision was raised with EnviroMission at the post LETDF AusIndustry client (applicant) debriefing.

It was indicated that LETDF applicants that showed state government co-funding potential in their submissions were earmarked as *more competitive* due to the better value those projects represented to the Federal Government's value for money criteria, by achieving greater value from a grant by lowering the grant ratio on a pro rata basis eg \$120 million grant to a \$460 million project would effectively lower the 2:1 ratio whilst achieving a greater project cost.

This priority of the Federal Government has overlooked EnviroMission's (and no doubt other applicants) commitment to provide substantial private sector investment of two dollars for every federal dollar for outcomes forecast to far exceed the schemes objectives preferring projects publicly announced to have substantially less favorable outcomes for the money.

This feedback is emphasized to EnviroMission's shareholders to assure the Solar Tower met all merit criteria and exceeded the targets of key criteria that additionally met broader objectives of Federal Government energy policy announced in 2005.

Whilst the lion's share of the economic benefits of the Sunraysia Solar Tower project would clearly advantage Mildura/Victoria, the Victorian government did not see fit to support the EnviroMission bid in this LETDF round. The NSW Government indicated its support would be made through a revised renewable energy policy and greenhouse gas reduction targets that would promote a market for renewable energy.

This backdrop has great relevance to EnviroMission's forward plan announced today.

EnviroMission approached the funding opportunity in the hope that some of the Front End Engineering and Design (FEED) expenditure undertaken to finesse the integration of enhancements to the Solar Tower concept would be met in a more immediate timeframe within the context of demonstration or proof of concept development.

However, the terms of the LETDF also came with constraints that held the potential to limit the pace and place of Solar Tower development. Now that the LETDF decision is behind us we are able to explore a more aggressive development pathway with a far more efficient technology and a well advanced FEED program that continued over the assessment period of the LETDF decision in order to meet a 2007 start date as specified within the terms of the LETDF deed of agreement.

FEED is now focused on refining the design parameters for optimum power station scale, capacity and cost effectiveness in relation to key variants of specific site conditions for example, solar radiation gain, and meteorological data to grid availability. The variants of the Sunraysia site in NSW are the specific variants of the current FEED consideration, although the model that has been developed for this assessment is now also template to model performance and economic viability to any potential site.

EnviroMission with Baulderstone Hornibrook and Ove ARUP are now in the process of determining the optimum plant dimensions and capacity to achieve the most commercial case for development. A result of this assessment may mean construction of the first power station will be in another market.

The 2006 Annual General Meeting (AGM) has been held in Wentworth to provide a commitment to the Sunraysia project within a development program that now includes a priority for global commercialization and distributed grid opportunities in Australia (Western Australia).

The EnviroMission board acknowledges that the five years of development in Australia backed by what now amounts to AUD\$60 million (including research and development back to 1980) represents a significant financial and development effort that now needs to be maximized by adopting the timeline proposed in the EnviroMission application to the LETDF scheme.

Building on the highly detailed and thorough commercialization pathway proposed in the LETDF will ensure the resources and time invested in the LETDF application has not been wasted. The primary modification to the submission's commercialization pathway will be the size and capacity of the first Solar Tower with the location and pace of the first development now more critical to the business case.

EnviroMission's program to enhance the concept for greater efficiency and competitiveness with coal and gas generators also had the inevitable effect of stalling international development in order for the best example of the concept to be commercialized.

International commercialisation can now proceed with development of the Australian Solar Tower concept unhindered by the constraints of the LETDF requirement for successful applicants to complete demonstration technology in Australia ahead of any international ventures.

This does not lessen EnviroMission's intent to construct a Solar Tower in Australia first; it does mean the business case (as opposed to economic viability) of the Sunraysia site, for example, will now be evaluated in light of parallel opportunities from development in other markets, specifically, Arizona in the United States where discussions are now advancing for a first case site in that region.

As the iconic benefit associated with the world's first Solar Tower will form ongoing currency for that project, EnviroMission will continue to lobby the State and Federal Government to provide support for the Sunraysia business case to increase its competitiveness.

In order to maximize the benefits from international development for all stakeholders to the process, a restructure of the corporate ownership of the licences, management and proprietorship will be undertaken in the coming financial quarter.

SolarMission Technologies Inc., the holder of the global Solar Tower licence and EnviroMission's long term single largest shareholder, has a close management and directorial relationship that operates with high levels of cooperation and shared interest in Solar Tower success.

Building on that relationship to achieve a streamlined corporate structure, in order to protect the integrity of the technology and consolidate all interests in future development, will form the basis of discussion between both boards in the coming weeks.

As indicated in the 2006 annual report, EnviroMission had embarked on a capital raising program with financial close unexpectedly impacted by the LETDF decision. The AUD\$2.4 million placement at 30 cents out of the US has now successfully undergone a new round of due diligence with transaction close expected before 31 December, 2006.

Further to that placement, EnviroMission is now seeking shareholder approval to raise an additional AUD\$5 million through a broker managed equity raising.

EnviroMission will build on the body of work for the LETDF to bring about Solar Tower development at a pace that will justifiably leave all supporters questioning how a technology with such strong environmental and economic benefits could be overlooked in favor of the smoke and mirrors of the LETDF decision.

We encourage all shareholders and supporters to question the process and bear pressure on government to provide the same benefits for renewable energy developers as carbon generators have enjoyed as a matter of priority ahead of any move to explore nuclear energy over the obvious benefits that are already available and under exploited in Australia.

Whilst EnviroMission is a small team, the development process involves many collaborators and consultants who bring innovation, skill, expertise, capability and above all a shared enthusiasm for renewable energy for a cleaner world.

Ends.

A handwritten signature in black ink, appearing to read 'R. Davey', with a long horizontal stroke extending to the right.

Roger C. Davey
Executive Chairman
Chief Executive Officer