

0017

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Company COVOL TECHNOLOGIES, INC.

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Dear Shareholder:

On behalf of Covol's Board of Directors I am pleased to provide you with an update on the activities of Covol Technologies. As I stated in my June letter, we are moving our technology into the production and operation phase, generating revenues for the Company. With September as our year end, I am currently implementing Covol's 1997 Business Plan and strategy. Recognizing the need for timely information by stockholders, I will be distributing a Presidents Quarterly Newsletter as part of this Business Plan. This newsletter will be the forum for keeping you apprised of significant events that have taken place within the quarter as well as updating you on the strategic direction of the Company.

Section 29 Tax Credit Extension

Perhaps the most notable item to mention is the extension of the Section 29 Tax Credit for Producing Fuel from a Nonconventional Source. Ace Sorensen, Covol's General Counsel, spent most of the early part of this year working with many of the Senators on the Senate Finance Committee in an effort to have the Senate write into its version of the Minimum Wage Bill an extension of Section 29. This is a very important environmental and economic tax credit, in that it allows Covol to participate in extending the nations domestic fuel reserves by recycling coal fines into a solid synthetic fuel. All of our efforts, including many of you who wrote letters to your Senators and Representatives, paid off on August 20, 1996 when President Clinton signed the extension of Section 29 into law. The extension of Section 29 gives Covol through June 30, 1998 to build more qualified coal processing facilities. Our goal is to build plants to process up to 2 million tons of additional capacity above the tons produced from Utah Synfuel #1 and Alabama Synfuel #1. The addition of these new plants makes me very optimistic about the ability for Covol to show a very strong earnings performance in 1997 and beyond.

Geneva Briquetting Facility

The Geneva Briquetting Facility has been in full production since June. At present, Covol has a toll material from se and we are processing iron revert best use of the p though this is not the highest and earlier estimate: erating at levels that exceeded our and 8000 tons p currently producing between 7000

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The Geneva Briquetting Facility has been in full production since June. At present, Covol has a tolling arrangement with Geneva Steel and we are processing iron revert material from several of Geneva's waste streams. Although this is not the highest and best use of the plant for Covol, we are pleased to be operating at levels that exceeded our earlier estimates of 6500 tons per month. The plant is currently producing between 7000 and 8000 tons per month of revert briquettes.

Utah Synfuel #1 and Alabama Synfuel #1 Projects

With regard to the completion of Utah Synfuel #1, Covol closed the Utah Limited Partnership on August 12, 1996. As part of this letter I am including a photo of the facility located in Carbon County, Utah. To date, construction of the plant is complete except for the installation of several of the material handling conveyors, which are being installed as of the date of this letter. The representatives of the extruding equipment manufacturer company will be on site beginning October 10. They, along with Covol personnel, will be starting up the facility at that time. I anticipate a very successful start up period due to the fact that we have paid close attention to details during construction, utilizing the expert construction management services of Lockwood Greene Engineering. We expect a ribbon cutting ceremony for Utah Synfuel #1 on or about October 25, 1996.

Alabama Synfuel #1 is moving forward as per our Business Plan. Covol chose the Utah site and the Alabama site prior to the extension of Section 29 specifically because each of these locations mitigated construction risks involved in getting the plants operational and placed in service before the end of 1996. Because of the extension, we no longer face this deadline for building qualified plants. Consequently, we have been able to focus all of our resources on finishing the Utah facility and are close to groundbreaking in Alabama. This really is an ideal situation. By the time Utah #1 is up and operational, we can begin breaking ground on Alabama #1.

Revenue

The tax credits generated by these coal fines processing plants far exceed Covol's ability to take advantage of them. Consequently, as part of our business plan we will sell the plants. The actual sale of these plants to a third party in order to optimize the value of operating profits as well as the tax credits associated with synthetic fuel production is a detailed and complex transaction. We are currently negotiating with several companies that have the requisite tax liability to make their purchase of a Section 29 qualified plant an attractive investment. The sale of these plants will generate significant revenue for the Company. An additional source of revenue from these coal fines processing plants will be the sale of Covol's patented binder. Covol will sell its binder for cost plus 20 percent through the life of the project. It is through Covol's patented binder and patented process that coal fines undergo a significant chemical change, yielding a new solid synthetic fuel.

NASDAQ

Many of you have inquired about the NASDAQ listing. As I stated back in June, Covol management is concerned about a NASDAQ listing and we are still pursuing that goal. Covol's fiscal year ends on September 30, 1996. At that time, Coopers and Lybrand our accounting firm, will begin auditing last year's financial statements. Covol will file its

first 10k approximately 90 days from the end of this fiscal year. We are confident that with the additional equity from Utah Synfuel #1 and Alabama Synfuel #1 projects, as well as the concurrent cash flow from the Geneva Briquetting facility, Covol should be able to qualify and re-file with NASDAQ.

Summary

For those of you who are new investors in the Company, as well as those of you who have been with Covol over the past several years, these latest developments should be very exciting news. It is gratifying for all of us to see these projects completed and come on line as further validation of the commercial viability of Covol's resource recovery technology. As management, we are focused on optimizing the economic and environmental implications of our innovative technology. We look forward to increasing shareholder value through these and other future projects.

Sincerely,



Mike Midgley
President

