

BIO-EXTRACTION INC.

(\$0.40, BXI: TSX-V)

Recommendation

Speculative Buy

Risk

High

Price (Oct 3)

\$0.40

52-Week Range

\$0.50 - \$0.20

Target Price

1 Year: \$0.75

5 Year: \$2.50

Potential Return

1 Year: 1.9x

5 Year: 6.3x

Shares O/S

53.86 million

Market Cap

\$21.5 million

Average Daily Volume

X

Year-End

December 31

C\$	BVPS	EPS
2006	\$0.04	(\$0.07)
2007E	\$0.10	(\$0.03)
2008E	\$0.16	\$0.01
2009E	\$0.21	\$0.06

BVPS: Book Value Per Share

EPS: Earnings Per Share

Analysts

Bob Leshchysen B.A., MBA, CFA



Data Source: www.BigCharts.com

UPFRONT

Bio-Extraction has announced that it will be building its first extraction facility in Saskatchewan, which will be operational in the 3Q 2008. There is huge upside potential, if management can successfully execute its game-plan.

RECOMMENDATION

eResearch is initiating coverage of Bio-Extraction Inc. ("Bio-Extraction" or the "Company") with a Speculative Buy, and are setting our 12-month share price target at \$0.75, and our five-year price target at \$2.50. (see Investment Conclusion on Page xx).

PROFILE

Bio-Extraction Inc. is involved in the development and commercialization of its extraction technology, which it intends to use to extract various active ingredients (including oil and protein from oilseeds) from organic and inorganic materials, either for re-sale or on a toll-processing basis for industrial customers.

HIGHLIGHTS

- ▶ Continued strong global demand for canola oil from the U.S.A. which imports approximately 60% of the Canadian canola oil.
- ▶ Good supply of canola seed feed stock in Saskatchewan.
- ▶ Experienced management team.
- ▶ Patented technology, proven at smaller scales and now ramping towards commercial scale production.
- ▶ Low-temperature extractions preserve value of proteins (and other sensitive plant compounds) to provide an incremental revenue opportunity to the Company, not generally available to companies employing conventional extraction technologies.

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THE COMPANY

Founded in 2003, and based in Toronto, Ontario, Bio-Extraction Inc. has developed and patented extraction technology which enables low-cost, high-yield extractions of valuable active ingredients (i.e. canola oil, canola meal and protein concentrate) from organic biomasses and inorganic feedstock as a service to industrial customers. This patented technology will be of interest to the pharmaceutical, nutraceutical, food processing, alternative fuel and recycling industries. The patented technology is designed to provide lower extraction costs, higher quality extracted materials and incremental revenue opportunities as its extractions can substantially retain the value of inherent proteins and sensitive compounds. The technology completes the extractions process in an environmentally friendly manner.

HISTORY OF COMPANY

Bio-Extraction Inc. was incorporated and organized as a Capital Pool Company (formerly Lifesciences Capital Corp.) pursuant to Policy 2.4 of the TSX Venture Exchange Inc. The Company was incorporated on March 17, 2006. The Company completed an initial public offering. On incorporation, 800,000 common shares were acquired by the directors and officers of the Company at a price of \$0.125 per share. The Company completed an initial public offering of 7,600,000 common shares at \$0.25 per share for gross proceeds of \$1,900,000 on July 14, 2006. The common shares of the Company were listed for trading on the TSX Venture Exchange on September 1, 2006. On October 10, 2006, the Corporation signed a Letter of Intent to purchase all of the issued and outstanding securities of Bio-Extraction Ltd., as its Qualifying Transaction under Policy 2.4 of the Exchange. Bio-Extraction Ltd. was a private company incorporated in Prince Edward Island on January 10, 2003.

On May 9, 2007, the Qualifying Transaction was closed and the name of the Company was changed to Bio-Extraction Inc. The Company issued 45,404,626 common shares to acquire 17,443,190 of the 17,926,523 outstanding common shares of Bio-Extraction Ltd. The common shares of the Company were posted for trading on the TSX Venture Exchange under the new symbol BXI on May 16, 2007.

The Company has a wholly owned subsidiary, MGA Holdings Inc., a Channel Islands corporation, which is the registered holder of certain of the patents used by the Company in its extraction process.

OPERATIONS

Introduction

Bio-Extraction is involved in developing and commercializing extraction technology, which it intends to use to extract, initially, canola oil, animal feed and protein concentrate from canola seeds.

Since 2003, the Company's main activities have focused on research and development, specifically on its patented extraction technology and its unique and proprietary extraction process. The Company has invested over \$4 million to date in these efforts.

Bi-Extraction's patented technology has two major applications: (1) the extraction of organic materials from biomass such as plant, fish, and animal materials, and (2) the cleansing of industrial materials. The Company's target markets include extractions in pharmaceutical, nutraceutical, fixed oils (including bio-fuels) and industrial cleansing (eg. specialty steels, plastics, and glass).

On September 28, 2007, the Company announced that it intends to build an oil extraction facility located in Saskatchewan, which will have a capacity to process 40 million kg of canola oilseeds per year. At full capacity, the facility will be to produce annually:

- 17.5 million litres of crude degummed canola oil (for further refinement into edible oil or biodiesel).
- 13 million kg of animal feed.
- 11 million kg of protein concentrate, at a standard purity level of 65%.

Other conventional extraction processes use a higher heat during the extraction process, making it difficult to derive valuable proteins. Bio-Extraction's process extracts virtually all of the oil from the oilseeds at lower temperatures and the process is expected to be less expensive to produce protein concentrate with higher yields.

Legacy Technologies

There are two primary legacy technologies that exist for extracting naturally derived oils from oilseeds, pharmaceutical/nutraceutical ingredients from plants and for industrial cleaning.

1. The first technology is generically referred to as Organic Solvent Extraction (OSE). Utilized for both oil (food and industrial) and naturally derived pharmaceutical products extraction, this method relies on the use of environmentally dangerous, and in many cases, toxic solvents such as hexane or methanol. It is the oldest existing technology, and although it is relatively cost-efficient at larger scales, it can be labour intensive, damaging to the environment, and can generally cause degradation of both the extracted materials and the residual spent biomass. Due to its undesirable operating aspects, certain countries are beginning to refuse granting operating permits for new OSE facilities.
2. The other technology used for both oil and naturally derived pharmaceutical extractions is called Supercritical Fluid Extraction (SFE), also known as Supercritical CO₂. While environmentally friendly, SFE operates at extremely high pressures and temperatures, making it expensive in terms of both operating and capital cost.

COMMENT: *Supercritical CO₂ extraction technology is not nearly as effective or efficient as BioExx technology in extracting oils from plant matter or industrial materials.*

Bio-Extraction believes that its technology combines the best elements of each of these extraction methods. The Company's technology is protected by three patents, registered in the name of MGA, covering its proprietary use of certain solvents in the extraction process. The patents have been issued in the U.K, Canada and in the U.S.A., cover all Patent Co-operation Treaty countries, and expire in 2020 and 2021.

Bio-Extraction's patented technology offers many benefits versus traditional extraction methods, including:

- low capital cost and low operating cost;
- higher quality and greater purity of extracts;
- retains nutritional value of biomass (eg. proteins and fat lipids); and
- environmentally friendly (low energy consumption and no carbon emissions).

The following table outlines some of the aspects of Bio-Extraction's technology compared to SFE and OSE:

Table 1. Comps

Feature	Bio-Extraction	Supercritical Fluid Extraction (SFE)	Organic Solvent Extraction (OSE)
Purity of Extracts	High	High	Low
Operating Cost	about 50% of SFE	High	High
Capital Cost	about 50% of SFE	High	about 50% of SFE
Biomass Requirements	Dry/Wet	Dry	Dry
Automation	Full	Full	Labor Intensive
Environmental:	Safe	Safe	Hazardous
Solvents in Plant	Non-flammable	Non-volatile	Volatile
Air Emissions	Non-toxic	Non-toxic	Potentially Toxic
Solid Waste	Clean	Clean	Hazardous

Source: Company Reports

Research and Development

Bio-Extraction has continued to focus on research and development in order to maintain and grow its competitive market position. The Company has developed a good relationship with the University of Prince Edward Island and as a result the Company is the sole corporate sponsor of the Food Technology Centre in Charlottetown, PEI, a \$5 million state-of-the-art federal R&D facility. The Food Technology Centre is registered as an ISO 9001 facility that includes an instrumentation laboratory, microbiological and chemical laboratories and a product development laboratory. The Centre is staffed by a team of scientists and technicians and is housed in a new 10,000 square foot addition to an existing research centre located on University of PEI campus in Charlottetown. At this facility, extensive lab testing and extraction analytics validate the efficacy of the Bio-Extraction science, and all intellectual property developed remains the property of Bio-Extraction.

Bio-Extraction also operates an "intermediate size" extraction facility in Charlottetown, exclusively to run advanced commercial-grade product trials and validate new process improvements. Once newly tested technologies and applications leave the lab, Bio-Extraction is able to run extraction cycles in small commercial quantities at this facility, to allow customers to take product in a scale suitable for introduction to their own manufacturing/processing environment. The Company conducts all of its own research and development programs, but outsources analytical testing to independent labs for the validation of its test results.

Potential Markets

1. **Industrial Products:** Inorganic feed stocks, including clean up of metal filings and turnings that are covered in industrial lubricants - known as “metal swarf”. Also specialty plastics and glass.
2. **Pharmaceuticals and Nutraceuticals:** Examples includes Paclitaxel, artemisinin, betulin, lutein, astaxanthin, lycopene, beta carotene, and many others (including Omega 3s and essential fatty acids).
3. **Fixed Oils and Related Proteins:** Includes well-known plant oils, (such as soya oil and canola oil), cosmetic oils, and industrial oils including bio-diesel.

For more details about each of these markets see APPENDIX IV.

GROWTH DRIVERS

The Company is growth strategy involves the following:

- Build, own, and operate extraction facilities. First facility to be built will be located in Saskatchewan.
- Each facility will be between 40-80 million tons in capacity and will be relatively smaller than other facilities in the market today and will capable of processing multiple feed stocks.
- The Company’s facility should reduce cost, increase quality and revenue, and mitigate environmental liability.

INDUSTRY OUTLOOK

There is a slow but determined shift occurring from a petroleum-based world to a plant-based world, primarily in the western world. Western society and industry are dependent on fossil reserves of coal and hydrocarbons for raw materials and energy. The global petrochemical industry relies on output from oil refineries for the manufacture of products (e.g.. fuels, plastics, textiles, paints, chemicals, etc.). It is recognized that the imported oil utilized by both the European Common Union and North America creates a huge external dependence on the relatively few exporting countries and contributes substantially to a trade imbalance. Fossil reserves are finite, with near-exhaustion of economically viable petroleum supplies predicted within 50 years. There is a growing global consensus that petroleum will become far more difficult to obtain, as world population grows and standards of living improve in developing countries. In addition, many petroleum rich countries are politically unstable, making supply stability and price problematic. Fossil fuel demand will further increase, costs will rise and the ready availability and persistent low price of petrochemical resources will cease.

Renewable plant resources are one way to supplement hydrocarbon resources and meet increasing worldwide needs for consumer goods. Significantly, mankind prospered mainly under a plant-based economy for tens of thousands of years, and only became dependent on petroleum reserves within the past century. The evolution to a renewable plant-based economy is desirable for its positive impact on the environment and to provide a sustainable basis for production. For example, petroleum-

derived plastics make up a significant volume of landfills that are reaching their capacity, and they are clearly recognized as a significant detriment to our marine environment. World scientists recognize that the consumption of fossil fuels contributes to the increase of greenhouse gasses in the atmosphere.

Products that have historically been derived from petroleum are increasingly being derived from plants. Each such application will require an extraction process, creating tremendous future opportunities for Bio-Extraction.

There is a strong momentum, through government incentives in particular, to develop the biofuel (ethanol) and biodiesel sectors. Demand is increasing rapidly, driven by a broad range of pervasive economic and environmental forces. However, because arable land is generally fully planted, society and industry is being forced to choose...crops for food or crops for fuel? This dilemma has driven up crop prices, which has begun to drive up prices of food and fuel. The Company's patented low-temperature technology addresses exactly this issue.

COMMENT: *Bio-Extraction's technology can extract canola oil from oilseed crops (such as canola and soybeans) while optimally retaining the nutritive value of the inherent proteins and therefore allows the same crop to be used for fuel and nutrition, thus enabling a fundamental change in the economics of an important global issue.*

(For further details about the Canola and Biodiesel Industries see Appendix II – Canola and Appendix III – Biodiesel.)

COMPETITION

Bio-Extraction will be competing with the following major global players (mostly private companies), who will be opening or expanding existing canola crushing facilities in the Canadian market. Most these facilities are located in Saskatchewan. Bio-Extraction's business strategy is to build and operate smaller, easier to manage, facilities initially in 40,000 to 80,000 ton capacity range. After some experience with these types of facilities over the next five years, it expects to progress to building larger facilities in 250,000 ton area.

The following are four major global companies which have announced new or expansion of existing canola crushing facilities:

Louis Dreyfus Corporation is a part of the Louis Dreyfus Group, an organization of companies owned and controlled by Paris-based Louis Dreyfus S.A.S. Principal activities of the Group, which was founded in 1851, consist of worldwide processing, trading and merchandising of a broad range of agricultural and energy commodities, manufacturing, telecommunications, real estate development and shipping. Active in the Canadian commodity market for over 60 years, Louis Dreyfus owns and operates a network of newly constructed elevators across Western Canada. Recently, Luis Dreyfus announced a \$90 million canola crushing investment in Yorkton, Saskatchewan. The 850,000 ton/year facility will be operational in 2008.

James Richardson International Limited (JRI) a subsidiary of James Richardson & Sons, Limited, is the largest privately-owned Canadian agribusiness. It handles all major grains, oilseeds, and special crops and sells crop inputs and related services through farm service centres throughout Canada. JRI, which has 1100 employees, is also actively involved in food processing through its subsidiary Canbra Foods Ltd. It has a strong history of growth and profitable operations. James Richardson

& Sons, Limited, established in 1857, is a privately-owned Canadian corporation. Headquartered in Winnipeg, the firm is involved in the international grain trade, real estate, energy, financial services and investments. Recently, JRI announced that it will build a 840,000 ton/year canola crushing facility in Yorkton, Saskatchewan at a cost of \$100 million.

Cargill Limited is one of Canada's largest agricultural merchandisers and processors with interests in meat, egg, malt and oilseed processing, livestock feed, salt manufacturing, as well as crop input products, grain handling and merchandizing. The company employs approximately 6,000 across Canada with sales of \$3.5 billion and \$1.2 billion in assets. Cargill Limited is a subsidiary of Cargill, Incorporated, an international marketer, processor and distributor of agricultural, food, financial and industrial products and services with 98,000 employees in 61 countries. Headquartered in Minneapolis, Cargill provides distinctive customer solutions in supply chain management, food applications, and health and nutrition. Recently, Cargill announced that plan to build a second canola processing plant adjacent to its existing operation in Clavet, Saskatchewan, which will start production in November 2008. The investment shall double oilseed processing capacity to 1.5 million tons annually.

Bunge Limited is a leading public global agribusiness and food company founded in 1818 and headquartered in White Plains, New York. Bunge's over 22,000 employees in over 30 countries enhance lives by improving the global agribusiness and food production chain. The company supplies fertilizer to farmers in South America, originates, transports and processes oilseeds, grains and other agricultural commodities worldwide, produces food products for commercial customers and consumers, and supplies raw materials and services to the biofuels industry. In January, 2006, Bunge announced that it is expanding its oilseed crusher and oil refinery in Nipawin, Saskatchewan. When construction is completed in November 2007, the facility will significantly increase the crush capacity (presently 365,000 tons/annually) and double its current refining capacity.

COMMENT: *The above noted companies will add about 2 million tons per year of new and expanded capacity over the next two years. According to the Ministry of Agriculture and Agri-Foods Canada, "Canadian canola oil and canola meal exports to the U.S. have grown by over 70% in the last 10 years and are expected to continue to trend upwards. U.S. imports of Canadian oil are also expected to increase in 2006-2007. Canadian canola oil exports to the EU have increased to about 245,000 tons for 2005-2006. In addition, increased consumer awareness of canola's health and nutritional benefits is expected to increase the demand for canola oil. " With the expanding demand for canola oil and canola meal by the U.S. and EU (for diesel), we expect that the Company's smaller facilities should not have any difficulty in selling its products.*

FINANCIAL REVIEW AND OUTLOOK

Revenue/Income: Bio-Extraction is an early stage development company and does not currently generate any revenues, cash flows or earnings and will continue to report net losses until they commission their first extraction plant.

Cash: Bio-Extraction had a cash balance of \$1,117,835 as of June 30, 2007.

Debt: The Atlantic Canada Opportunities Agency advanced \$500,000 to the Company as a provisionally repayable contribution. The contribution is repayable provided that "project success," as defined in the contribution agreement is achieved. The definition of "project success" includes

any action which indicates the Company is proceeding to establish a full scale extraction facility. Management expects to enter into an agreement for the construction of an extraction facility in fiscal 2007. Payments will commence six months after project success has, in the opinion of the agency, been achieved. When this occurs, seventy-one consecutive monthly installments of \$6,945 followed by one final installment of \$6,905 will be due. In addition, the Company has an available overdraft facility in the amount of \$100,000 that is unused. The security on this facility includes a pledge from the president of the Company.

Burn Rate: Bio-Extraction incurred non-discretionary expenditures i.e. selling, general and administrative expenses of \$519,338 for the six-month period ended June 30, 2007, which translates into a burn-rate of \$87,000 per month. We are forecasting a burn rate of approximately \$xxx,x per month for the final six months of 2007.

Capital Expenditures: Bio-Extraction is expected to spend approximately \$8,000,000 on capital expenditures in 2007 and another \$10,000,000 in 2008.

Capital Structure: The Company currently has 54.0 million common shares outstanding. At recent share prices, the Company's market capitalization is approximately \$x.x million. As at September 26, 2007, 18,753,238 common shares remain in escrow until 2010.

Warrants and Options: The Company has the following options and warrants outstanding:

1. Warrants

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>	<u>Comment</u>	<u>Potential Equity</u>
1,490,218	\$0.58	31-Aug-08	<i>Out-of-the-Money</i>	\$864,326
78,090	\$0.38	31-Aug-08	In-the-Money	\$29,674
1,322,865	\$0.30	31-Aug-08	In-the-Money	\$396,860
<u>703,000</u>	\$0.25	1-Sep-08	In-the-Money	<u>\$175,750</u>
3,594,173				\$1,466,610

2. Options

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>	<u>Comment</u>	<u>Potential Equity</u>
1,041,200	\$0.15	31-Dec-08	In-the-Money	\$156,180
65,075	\$0.19	31-Dec-08	In-the-Money	\$12,364
200,000	\$0.30	11-May-08	In-the-Money	\$60,000
1,498,592	\$0.30	11-May-11	In-the-Money	\$449,578
420,000	\$0.25	19-Jul-11	In-the-Money	\$105,000
<u>1,772,038</u>	\$0.25	15-Dec-11	In-the-Money	<u>\$443,010</u>
4,996,905				\$1,226,131

Source: Company and eResearch

COMMENT: *The entries in italics expire within our 12 month forecast period, and are either "in-the-money" or have exercise prices that are less than our projected Target Price. Collectively, this will increase the number of shares outstanding by 4,900,448 and add \$1,695,154 to Shareholders' Equity. We use these additional shares in our calculation of the Company's intrinsic value.*

Financial Statements and Forecast: The table set out below shows abridged financial statements of income/(loss); cash flow; and the balance sheet and forecast for 2007, 2008 and 2009.

Forecast Assumptions

Gross revenues: We have assumed that the Company will complete the construction of four facilities over the next five years.

We have assumed the **first** facility will be opened by the end of the 3Q 2008 will be located in Saskatchewan and have a capacity of 40 million tons. We have used a 40% capacity in 2008 and 100% in subsequent years for our forecast. We have assumed that the cost of facility would be \$8 million, of which \$8 million would be financed with equity at \$0.35 per share.

We have assumed the **second** facility will be opened by the in 2Q 2009 with a capacity of 50 million tons. We have used a 50% capacity in 2009 and 100% in subsequent years for our forecast. We have assumed that the cost of facility would be \$10 million, of which \$5 million would be financed with equity at \$0.40 per share and the remainder in debt.

We have assumed the **third** facility will be opened by the in 1Q 2010 with a capacity of 75 million tons. We have used a 60% capacity in 2010 and 100% in subsequent years for our forecast. We have assumed that the cost of facility would be \$15 million, of which \$7.5 million would be financed with equity at \$0.45 per share and the remainder in debt.

We have assumed the **fourth** facility will be opened by the in 1Q 2011 with a capacity of 75 million tons. We have used a 70% capacity in 2011 and 100% in subsequent years for our forecast. We have assumed that the cost of facility would be \$15 million, of which \$7.5 million would be financed with equity at \$0.50 per share and the remainder in debt.

Gross Margin: We assumed the following gross margins:

2008	30%
2009	31%
2010	32%
2011	33%
2012	34%
2013	35%
2014	35%
2015	35%

Interest Costs: We have assumed an interest rate of 6.25% for 2008 and 6.50% in 2009 and 6.75% thereafter.

Depreciation Rate: We have assumed a depreciation rate of 25% on declining balance basis.

Tax rate: We assumed a tax loss carry forward of approximately \$2 million and tax rate of 32%.

RISKS TO THE FORECAST

Competition

The Company competes with many other suppliers of extraction products and services. Many of its competitors have greater financial, operational, and sales and marketing resources and more experience in research and development than Bio-Extraction. These companies could, in the future, develop new technologies that compete with Bio-Extraction's products or even render its products obsolete.

Capital Requirements

In the future, the Company will need to incur additional debt or issue equity in order to fund working capital, capital expenditures for the new facilities contemplated and research and development requirements. If the Company is unable to obtain additional debt or equity financing on acceptable terms or if it is limited with respect to incurring additional debt or issuing equity, it may be unable to address gaps in its product offerings or improve its technology. There can be no assurance that the Company will be able to raise additional funds to finance its operations.

Intellectual Property

The Company's success depends to a significant degree upon its ability to develop, maintain and protect proprietary products and technologies. The Company has filed patent applications in the United States, Canada, and Europe. However, patents provide only limited protection of BioExx's intellectual property. The Company cannot provide assurances that patents will be granted with respect to any of its pending patent applications. The Company's current patents could be successfully challenged, invalidated or circumvented, which could result in patent rights failing to create an effective competitive barrier.

Commercial Scale Facility Risks

The Company has never constructed or operated a commercial-scale extraction facility, only an intermediate sized facility, roughly one-tenth the size of a commercial-scale facility, and even then only for a limited period of time. While the Company believes the risks associated with constructing and operating larger facilities are manageable and not material, there can be no assurance that the Company will be able successfully construct and operate large-scale facilities for extended periods of time with the performance levels and economics required to earn a profit and to meet the needs of its markets and customers.

Product Expansion Risks

The Company has tested the efficacy of its extraction technologies on a limited number of products, and only in laboratory and small-scale environments. While the Company believes its technologies are commercially applicable to a broad range of markets, products, and applications, its future growth is dependent on its ability to successfully address new extraction markets by applying its technologies to new products.

Reliance on Third Parties

The Company relies on third party manufacturers to supply many of its raw materials and product components, in particular those components required for the construction and operation of its extraction facilities. Some of these components are only available from a single supplier or a limited group of suppliers, which could result in the inability to obtain an adequate supply of required components, delays and long lead times in receiving materials from vendors; and reduced control over quality and pricing of components.

VALUATION

Discounted Cash Flow

With an absence of revenues to date, we have undertaken a valuation of Bio-Extraction shares using a discounted cash flow (DCF) approach. Table x shows our DCF projections for a 10-year horizon out to 2015. Using our model to project revenues, earnings and free cash flow through 2015, we performed a sensitivity analysis using a range of terminal values and discount rates. Our current 12-month Target Price of \$0.75 per share is based upon a terminal value of 7.5x net earnings and a discount rate of 30%. We believe that a terminal value of 7.5x is conservative, based upon the long-term growth rates of companies in the agri-food sector. We have used a lower discount rate of 30%, which reflects Bio-Extraction plans to begin generating revenues in 2008 from its first oil extraction facility.

Table 3. Bio-Extraction Inc. DCF models to 2012

	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Total Revenue	\$0	\$0	\$10,186	\$41,381	\$85,944	\$138,466	\$154,318	\$157,404	\$160,552	\$163,763
Cash From Operating Activities	(1,108)	(1,670)	1,556	11,028	25,402	43,294	49,768	52,091	52,893	53,717
<i>Less: Capital Expenditures</i>	-	(7,500)	(9,000)	(3,000)	(14,000)	(14,000)	(750)	(750)	(750)	(750)
= Free Cash Flow to Equity	(1,108)	(9,170)	(7,444)	8,028	11,402	29,294	49,018	51,341	52,143	52,967

Terminal Year Net Income	33,597
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Current Share Base (thousar	94,119
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<i>Period Calculation:</i>	
Today	15-Oct-07
Terminal Date	31-Dec-15
Days	2,999
Year Fraction	8.22

<i>Fractional Year Calendar</i>	
Beginning Year Date	1-Jan-06
Present Date	15-Oct-07
Days	652
Year Fraction	-1.79

Bio-Extraction Inc.

Discounted Cash Flow Analysis (through 2015)

<i>Discount Rates</i>		<i>Terminal Value Multiples</i>		
		5.0x	7.5x	10.0x
25.0%	Present Value of Free Cash Flows	\$53,208	\$53,208	\$53,208
	Present Value of December 31, 2015 Terminal Value*	<u>26,854</u>	<u>40,282</u>	<u>53,709</u>
	Present Value of Enterprise (Debt & Equity)	80,063	93,490	106,917
	% Value in Terminal Value	33.5%	43.1%	50.2%
	Plus: Current Cash Position	<u>1,359</u>	<u>1,359</u>	<u>1,359</u>
	Equity Valuation as of October 15, 2007	81,422	94,849	108,276
	Equity Valuation Per Share	\$0.87	\$1.01	\$1.15
	Present Value of Free Cash Flows	\$40,184	\$40,184	\$40,184
	Present Value of December 31, 2015 Terminal Value*	<u>19,456</u>	<u>29,185</u>	<u>38,913</u>
	Present Value of Enterprise (Debt & Equity)	59,641	69,369	79,097
% Value in Terminal Value	32.6%	42.1%	49.2%	
30.0%	Plus: Current Cash Position	<u>1,359</u>	<u>1,359</u>	<u>1,359</u>
	Equity Valuation as of October 15, 2007	61,000	70,728	80,456
	Equity Valuation Per Share	\$0.65	\$0.75	\$0.85
	Present Value of Free Cash Flows	\$30,269	\$30,269	\$30,269
	Present Value of December 31, 2015 Terminal Value*	<u>14,269</u>	<u>21,403</u>	<u>28,538</u>
	Present Value of Enterprise (Debt & Equity)	44,538	51,672	58,806
	% Value in Terminal Value	32.0%	41.4%	48.5%
	Plus: Current Cash Position	<u>1,359</u>	<u>1,359</u>	<u>1,359</u>
	Equity Valuation as of October 15, 2007	45,897	53,031	60,166
	Equity Valuation Per Share	\$0.49	\$0.56	\$0.64

(*) Terminal Value = 2015 Projected Net Income * Multiple

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Comparable Companies Analysis

We performed a comparable company analysis to see how Bio-Extraction trades relative to other agri-food, biodiesel and extraction companies at different stages of their development. Presently, Bio-Extraction has a market cap of \$18.9 million and lower burn rate than most of the comparable companies. Because all of the companies, except for the two large cap companies, are not generating net income, we have not been able to use them for valuation purposes. However, we have included these companies to give the investors an indication of scope of the companies in this market. We have included the financial results of two major global companies in the agri-food business, which operate canola crushing plants to show that 7.5x EBITDA multiple we have used in our valuation is reasonable.

Agri-Business Industry

<i>CDN\$ (unless otherwise noted)</i> Name of Company	Stock Symbol	Recent Price	52 week High Low		Mkt Cap \$Mils	Shares o/s Mils	Enterprise Value \$Mils	Year End
Archer Daniels Midland Company	ADM	\$34.68	\$40.00	\$30.20	\$22,320	643.6	\$25,518	30-Jun
Bunge Ltd.	BG	\$102.85	\$110.42	\$57.31	\$12,424	120.8	\$16,557	31-Dec
Trailing 4 Quarters								
Name of Company (Year End)	Revenue (\$mils)		EV/Revenue		Revenue/ Share	Price/ Revenue	EBITDA /Share	Price/ EBITDA
	2006	Trailing	2006	Trailing				
Archer Daniels Midland Company	\$36,596	\$44,018	0.69x	0.58x	\$67.10	0.52x	\$4.18	8.3x
Bunge Ltd.	\$26,274	\$32,752	0.59x	0.51x	\$269.71	0.38x	\$5.08	20.2x
<i>Weighted Avg. multiple</i>			<i>0.65x</i>	<i>0.55x</i>		<i>0.41x</i>		<i>14.8x</i>
Name of Company (Year End)	Cash \$mils	Debt \$mils	EBITDA (\$mils)		EV/EBITDA		EPS Trailing	P/E Trailing
			2006	Trailing	2006	Trailing		
Archer Daniels Midland Company	2,087	5,285	\$2,430	\$2,743	10.3x	9.3x	\$3.30	10.5x
Bunge Ltd.	466	4,599	\$917	\$1,069	16.9x	15.5x	\$4.90	21.0x
<i>Weighted Avg. multiple</i>					<i>12.1x</i>	<i>11.0x</i>		<i>16.8x</i>

<i>CDN\$ (unless otherwise noted)</i> Name of Company	Most Recent Quarter	Stock Symbol	Recent Price	52 week High Low		Year End
International Bio-Recovery Corp.	31-Mar	IBR	\$0.14	\$0.29	\$0.11	30-Jun
Burcon Nutrascience Corp.	30-Jun	BU	\$4.65	\$4.75	\$2.22	31-Mar
Neptune Technologies & Bioresources	31-Aug	NTB	\$4.60	\$8.48	\$2.81	31-May
Bioxel Pharma Inc.	30-Jun	BIP	\$0.18	\$0.43	\$0.12	31-Dec
Earth Biofuels Inc.	30-Jun	BSLM	\$0.11	\$0.26	\$0.11	31-Dec
Better Biodiesel Inc.	30-Jun	BBDS	\$1.11	\$14.50	\$0.75	30-Sep
Greenshift Corp.	30-Jun	GSHF	\$0.03	\$0.07	\$0.02	31-Dec
Kreido Biofuels Inc.	30-Jun	KRBF	\$0.77	\$5.00	\$0.01	31-Dec
Bio-Extraction Inc.	30-Jun	BXI	\$0.45	\$0.50	\$0.20	31-Dec
<i>CDN\$ (unless otherwise noted)</i> Name of Company	Mkt Cap \$Mils	Shares o/s Mils	Enterprise Value \$Mils	Monthly* Burn Rate	Cash	Total Debt
International Bio-Recovery Corp.	\$4.9	34.9	\$6.3	\$127,273	\$0.0	\$1.4
Burcon Nutrascience Corp.	\$115.9	24.9	\$110.1	\$224,343	\$5.8	\$0.0
Neptune Technologies & Bioresources	\$170.3	37.0	\$171.2	*	\$3.0	\$4.0
Bioxel Pharma Inc.	\$14.3	79.4	\$20.2	\$163,033	\$0.0	\$5.9
<i>Average</i>	<i>\$76.3</i>		<i>\$77.0</i>	<i>\$171,550</i>		
Earth Biofuels Inc.	\$26.4	240.4	\$71.2	\$1,645,917	\$0.5	\$45.2
Better Biodiesel Inc.	\$34.3	30.9	\$34.4	\$117,779	\$0.3	\$0.3
Greenshift Corp.	\$5.8	200.0	\$53.2	\$489,463	\$1.8	\$49.1
Kreido Biofuels Inc.	\$40.4	52.5	\$23.3	\$263,000	\$17.3	\$0.2
<i>Average</i>	<i>\$26.8</i>		<i>\$45.5</i>	<i>\$290,081</i>		
Bio-Extraction Inc.	\$24.2	53.9	\$23.6	\$139,043	\$1.1	\$0.5

* cash flow positive

Investment Conclusion

- We are optimistic that the Company will be able to build and operate its first facility in 2008, based on the experienced management team.
- Our Discounted Cash Flow valuation provides an intrinsic value of \$0.75 using a 30% discount rate. The discount is reflective of the fact that the Company plans to generate revenues in 2008 and make a small profit in 2008.
- Our Target Price of \$0.75 represents an appreciable upside potential from the current levels of \$0.40.
- eResearch's recommendation is a Speculative Buy, as Bio-Extraction is suitable for risk tolerant investors.

Long Term Target

- We have used our Discount Cash Flow valuation to estimate a value of Bio-Extraction for 2012.
- We have used a P/E multiple of 10x and P/EBITDA multiple of 7.5x, which are at a substantial discount to the P/E multiple of 16.5x and P/EBITDA multiple of 14.4x of the large agribusiness companies in the comparable table above.
- We have arrived at a 5-year Target price of \$2.50.
- Our Target Price is contingent on the Company successfully executing its facility build-out strategy as outlined in our assumptions to the forecast.
- We are assuming that the global demand for canola oil and meal will continue to be strong and the canola oil prices will remain stable or increase over the next five years.

Bio-Extraction Inc.	
Forecast	
Long Range Valuation	
	2012
EBITDA	\$49,768
Per share	\$0.38
Net Income	27,669
EPS	\$0.21
Avg. shares	129,476,514
P/EBITDA	7.5x
P/E	10.0x
	\$2.88
	\$2.14
	<u>\$2.51</u>

APPENDIX I

MANAGEMENT

Christopher D. Carl, President

Mr. Carl has 23 years experience in project finance, plant construction and mill management with both a large Fortune 500 Company and a Startup of which he was a co-founder. Both situations involved successfully commercializing laboratory-scale technology into multiple operating plants with the Startup progressing from concept into a 180 employee company that successfully raised US\$250 million to construct and operate two facilities in North America. He holds an Honours Bachelor of Commerce Degree from Queen's University (1984).

Chris Schnarr, Chief Financial Officer

Mr. Schnarr was a co-founder of Wireless Matrix Corporation where he served as Treasurer, Chief Financial Officer, Executive Vice President, President, and a Director. Mr. Schnarr stewarded the growth of this wireless technology developer and service provider to annual revenues of over \$30 million, over 100 employees, and providing services on five continents. Mr. Schnarr has a post-graduate degree in finance (MBA) from University of British Columbia (1990), and a Bachelor of Business Administration degree and a Minor in Economics, from Wilfrid Laurier University (1989).

Laurence Parslow, Vice President Technology

Mr. Parslow has almost 20 years industry experience in the practical applications of active ingredient extraction including work as an analytical chemist, operations manager of an extraction company and as a designer and operator of new extraction methods. Mr. Parslow has worked extensively with Organic Solvent Extraction. He holds both a B.Sc. in Chemistry from the University of PEI and a B.Sc.Eng. in Chemical Engineering from the University of New Brunswick.

Samah Garringer, Director of Sales and Marketing

Mrs. Garringer has had a 20 plus year career focused on Business Development, Sales, Administration and Finance of retail companies, technology and manufacturing start ups in Canada and Brazil. Positions held included Director, Financial Operations with Consumers Distributing, a \$500 million company with 170 retail store chain in Canada and General Manger of Colormatrix currently, a highly successful manufacturer of colorants and additives in the plastics field in the state of Sao Paulo, Brazil. Mrs. Garringer holds a B.A. in Economics from the American University of Cairo, with post graduate studies in Business and Finance.

Ilja Troitschanski, Vice President Business Development

Mr. Troitschanski has extensive experience in international project developments including Vice President of Global Sales for Optex Handels GmbH in Germany, where he increased the sales turnover by a factor of 30 in 3 years, introduced the company's products to 26 new countries on 4 continents, negotiated long term supplier agreements throughout Europe and Asia, and managed the China office. He has also been involved in financing several start-up technology companies in the renewable energy and resource sectors. Mr. Troitschanski holds a Bachelor of Business Administration degree.

APPENDIX II

CANOLA OIL

The following comments are based on the recent reports from the Government of Canada – Ministry of Agriculture and Agri-Food Canada:

Canada developed in 1974 a variety of rapeseed called canola (Canadian Oil Low Acid) which has low erucic acid content and low level of glucosinolates. There is some evidence that rapeseed animal feed with high levels of erucic acid could cause heart problems for the animals and that a sharp-tasting compound called glucosinolates which is found in rapeseed is not appealing to livestock. These two concerns about rapeseed resulted in the development of canola.

Canola oil is also touted as a healthy oil because it is low in saturate fat, has high monounsaturated oil content and beneficial omega-3 fatty acid profile. Traditional rapeseed oil with erucic acid content and glucosinolates was deemed undesirable for human consumption by U.S. Food and Drug Administration (FDA).

World production of canola/rapeseed oil is expected to rise to 18.2 million tons (Mt) by 2006-2007. The major producers are EU with 6.8 Mt, China with 4.6 Mt, India with 2.2 Mt and Canada with 1.5 Mt. Canada is the largest exporter of canola oil, accounting for 60% of the world trade in canola oil. U.S. should import approximately 0.8 Mt in 2006-2007. In the U.S., canola oil is primarily used in salad and cooking oils. The EU is the second largest importer at the expected rate of 0.5 Mt for 2006-2007. In EU, canola oil is being used in the rapidly growing biodiesel industry. The major Canadian centre for the crushing of canola is Province of Saskatchewan where in 2006 four new or expanded plants will produce approximately 3.2 Mt of canola oil per year by 2008. Canadian canola oil production is projected to double to about 3.0 Mt by 2010.

The impact of the biodiesel industry on the canola oil market looks good for the medium term. In the U.S. biodiesel production is forecasted to rise to 700 million gallons (3.6 billion litres) by 2011-2012. In the EU, there is support to increase the blend of renewable fuel content to 10% in biodiesel by 2012 and this would result in an increase in biodiesel capacity to 10 million gallons per year (38 million litres). In Canada, there is a regulation requiring a 2% requirement for renewable content in diesel fuel and heating fuel oil by 2012. This implies the use of 600 million litres of which 350 million litres would be canola oil.

Historical Canola Pricing and Economics

Year	Oil (\$ per tonne)	Meal (\$ per tonne)	Seed (\$ per tonne)
1988	469.16	179.16	303.35
1989	553.08	194.33	337.03
1990	537.35	155.75	303.72
1991	553.36	133.32	287.72
1992	534.96	127.53	274.85
1993	585.46	168.06	321.72
1994	750.42	178.70	392.10
1995	836.64	148.48	419.59
1996	770.61	205.19	432.33
1997	725.58	244.46	440.25
1998	819.22	178.58	419.99
1999	754.27	142.10	372.43
2000	568.84	156.27	287.82
2001	485.46	205.05	289.91
2002	633.10	222.80	356.96
2003	813.70	214.38	415.39
2004	811.17	240.76	390.57
2005	688.51	166.22	310.79
2006	638.03	156.81	277.10
2007	1,045.00	175.00	425.00
<u>Averages</u>			
20 year	678.70	179.65	352.93
15 year	728.40	186.86	370.13
10 year	725.73	185.80	354.60
5 year	799.28	190.63	363.77

SOURCE: CEREALS AND OILSEEDS REVIEWS APPENDIX III

BIODIESEL

The following comments are based on the recent reports from the Government of Canada – Ministry of Agriculture and Agri-Food Canada:

Biodiesel is defined as diesel equivalent, processed fuel, derived from biological sources of which the most common are tallow, yellow grease or vegetable oils. The sources feedstock varies by region. In North America, the most common sources of biodiesel is currently soybean oil or yellow grease or tallow, while in the EU it is rapeseed. In Asia, biodiesel is being made from palm oil.

European Common Market (EU)

The EU is world's leader in the biodiesel sector. It's biodiesel industry has grown fourfold since the mid-1990s. Based on statistics from the European Biodiesel Board (EBB), the annual production capacity for 2006 was 4.89 million tons (Mt). (5.6 billion litres), an increase of 53% from the previous year. The EBB is forecasting that production capacity for 2007 will increase by 110% to 10.289 Mt (11.6 billion litres). The growth of the biodiesel sector has been supported by a host of regulatory reforms. One reform has resulted in lands being set aside for non-food crops. By 2000, over 1 million hectares of set aside land was being used to grow biofuel crops of which 70% were sown with rapeseed. In the EU approximately 80% of the biodiesel is produced from rapeseed oil. Regulatory standards in the EU limit the use of soy oil to 20-25% of the blend. Biodiesel production has been given a further impetus by new regulatory reforms increasing the target market share for biofuel from 2.0% in 2005 to 5.75% in 2010.

United States

Based on the National Biodiesel Board (NBB), the annual production for 2006 was 225 million gallons (852 million litres), an increase of 200% from the previous year. The production in 2005 was 75 million gallons which was a 200% increase over 2004. These increases were spurred on in large part by the Blenders Credit provision in the energy Bill which provided a subsidy of US\$1 per gallon to support the production of biodiesel from vegetable oil and \$0.50/gal for tallow biodiesel. The US has over 165 plants either in operation, under construction, or on the drawing boards.

Canada

Until recently, commercial production of biodiesel in Canada was virtually non-existent. Canadian production of biodiesel is estimated to reach 95 million litres in 2006-2007. At present, Canadian companies are using low-cost feedstocks, particularly fish oil, animal fats and recycled cooking oil. If biodiesel production were to increase significantly, canola would likely become the feedstock of choice, because of its wide availability in Canada. Biodiesel is mainly exported to the United States, but it is also used by vehicle fleets such as those of Montréal's public transit corporation, Ontario Hydro, Guelph Transit and the City of Toronto. The Canadian government announced a \$10 million program in support of the Biofuels Opportunities for Producers Initiative. The Canadian government has made a commitment to achieve a 5% average renewable content in transportation fuel by 2010.

APPENDIX IV

POTENTIAL MARKETS

The following description of these markets for Bio-Extraction's technology came from the Company's website.

Pharmaceutical and Nutraceutical Industry

Paclitaxel

Paclitaxel, belongs to a group of medicines called antineoplastics and is used to treat cancer of the ovaries and breast, certain types of lung cancer, and cancers of the skin and mucous membranes more commonly found in patients with AIDS. Paclitaxel was previously extracted from the bark of the Pacific yew tree but can now be extracted from *Taxus Baccata*, an ornamental bush grown in Europe, and from *Taxus Canadensis*, a wild bush found in Atlantic Canada and other parts of North America. The high-purity and extraction efficiency of the Company's technology offers a valuable solution for pharmaceutical companies and intermediary processors. The Company has extracted significant quantities of commercial grade Paclitaxel Extract and is continually refining the extraction process. The current Company's process offers Paclitaxel Extracts of *Taxus Canadensis* at 0.6 - 0.75% at 90% yield, significantly higher than the typical methanolic extract of 0.07 - 0.09%. The extracts are dry, free of solvent, and may be shipped by plane worldwide.

Artemisinin

Today ACTs (Artemisinin Combination Therapies) are considered the most effective way to treat malaria, reduce its recurrence, and minimize the further spread of drug-resistant infections. Increased demand for ACTs is expected as countries implement changes to their health policies and adopt ACTs as their first-line treatment for malaria. This will require additional treatment courses and such key ingredients as artemisinin. Artemisinin is contained in an oil sac on the surface of artemisinin annua leaves and can be extracted using BioExx technology. Initial trials indicate a yield of 95%.

Lutein

Lutein is one of over 600 naturally occurring carotenoids. Found in green leafy vegetables such as spinach and kale, lutein is used as an antioxidant. Lutein, believed to be deficient in most Western diets, is bound to fatty acids present in some fruits and flowers, notably marigolds. The Company's process allows for superior extraction of lutein from marigold flowers, enabling many commercial nutraceutical lutein formulations. The Company's extraction efficiency for lutein, based on extractions from several samples of marigold flowers and powders, significantly exceeds that for both hexane and for HFC134A. Results of trials were 2.6 - 3.3% purity lutein at 75% to 90% yield.

Saw Plamento

Saw palmetto, the most popular natural prostate remedy which outsells all other herbal products combined, is marketed as a treatment for Benign Prostatic Hyperplasia or BPH. The medicinal element of saw palmetto comes from the partially dried ripe fruit (especially the free fatty acids in the berry) of the American dwarf palm tree. The most widely studied form of saw palmetto is Permixon, which uses the solvent hexane, while other formulations use liquid carbon dioxide as the solvent. The patented extraction technology of BioExx outperforms both hexane and supercritical CO₂. Bio-Extraction has extracted both powdered and whole saw palmetto berries. The fatty acid content of BioExx Saw Palmetto Oils meets or exceeds specifications for commercially available Supercritical Carbon Dioxide Extracted (SFE) oils. However, the BioExx process also extracts significant levels of beta-carotene, not normally found in SFE extracted oils. The level of beta-carotene found in the BioExx oil extracted from whole berries is 9,600 IU/100g.

Fixed Oil Industry

The worldwide fixed oil industry is dependant on sales of low quality, low value-added animal feed for the cost effective production of food grade oils.

Canola, Soybean and Flax Seed Oils and Proteins

Food-grade oils produced from such crops as soybean, canola, flax and rapeseed are usually extracted using a special grade of hexane, a highly flammable and carcinogenic petroleum solvent. The residual meal is then sold as low value animal feed. The Company technology uses patented solvents that are non-flammable and do not expose the biomass to the high processing temperatures typical of traditional hexane extractions, thereby optimally maintaining quantity, quality, and value of the inherent proteins. These lower temperatures also result in operating costs savings, in the form of reductions in energy usage. The extraction of the oils in testing is over 98% efficient and of high quality.

The sophistication of the Company's process results in increased crop-value and the extraction of other crop products and compounds including high quality food grade proteins, glucosinolates, a group of compounds offering potential value as natural pesticides and anti-oxidants, and isoflavones, a nutraceutical by-product of soybeans.

Bio-Extraction has performed successful trials on Canola, Flax Seeds and Soybean. In all cases the residual oil in the extracted meal was less than 1% and the free fatty acid content of the meal as a percentage of the residual oil was less than 1% of the oil content. Trials on Bio-Extraction's oil extracted Soybean meal indicate up to 57% solubility in salt solutions, confirming that the Company's low-temperature process significantly reduces the protein degradation. The Company's trials with Canola showed an increase in solubility of proteins in the oil extracted meal of 93% over hexane oil extracted meal.

Omega 3 (DHA/EPA) Enriched Oil

The unique low-temperature aspect of the Bio-Extraction's process offers potential for the highly efficient extraction of Omega 3 fatty acids from micro algae and marine fungi, in particular Docosahexaenoic Acid (DHA). DHA is not found in vegetable oils and or in any other naturally occurring products other than fish, micro-algae and marine-fungi. The other common fatty acid found in fish is Eicosapentaenoic Acid (EPA). As with DHA, the body has limited ability to manufacture EPA by converting the Alpha-linolenic Acid (ALA) is found in flaxseed oil, canola oil or walnuts. ALA is also an omega 3 essential fatty acid; it is the parent fatty acid to EPA.

Many Omega 3, 6 & 9 products are available on the Nutraceutical market but today there is a shift to providing oils containing DHA and products with a higher ratio of DHA/EPA than what is normally found in fish oils. This is done using a process called molecular distillation and/or by extracting higher DHA oils from marine-fungi. At present, nutraceutical products high in DHA demand a premium.

The Company's technology offers high-quality, high yield food grade oils from non-contaminated farmed vegetable biomass while recovering valuable high-quality aquaculture and feed-grade proteins from the processed meal.

Carotenoids

Astaxanthin

Astaxanthin, a carotenoid typically extracted with a supercritical CO₂ process from micro-algae that is grown by fermentation, is a colourful, fat soluble pigment. Astaxanthin is said to be the most powerful naturally occurring anti-oxidant is typically extracted with a supercritical CO₂ process from micro-algae and sold as a nutraceutical and food/feed additive for human, animal and aquaculture.

Lycopene

Lycopene is a carotenoid that imparts red colour to tomatoes, guava, rosehip, watermelon and pink grapefruit. A proven anti-oxidant, it neutralizes free radicals which may damage the body's cells, and provides protection from diseases like cancer. Research shows that lycopene in tomatoes can be absorbed more efficiently by the body if processed into juice, sauce, paste and ketchup. Lycopene is deposited in the liver, lungs, prostate gland, colon and skin, and its concentration in such tissues tends to be higher than all other carotenoids..

Beta-Carotene

Beta-carotene part of the family of chemicals called carotenoids is the molecule that gives carrots their orange colour. Beta-carotene, which is most important as the precursor of vitamin A, also has anti-oxidant properties and may help prevent cancer and other diseases. The greater the intensity of the colour of the fruit or vegetable, the more beta-carotene it contains.

Bio-Diesel, Proteins and Related Products

Many countries, including Canada and the U. S., now encourage production of bio-diesel from agricultural crops. Traditionally, agriculturally sourced bio-diesel has been produced from high erucic acid rapeseed. However, the residual meal is not suitable for animal feed because of higher level of glucosinolates found in high erucic acid rapeseed. This means agricultural crops used for bio-diesel have no intrinsic value other than the bio-diesel, resulting in poor economics and reduced value to farmers.

Today North American farmers are being encouraged to switch to Canola oil to produce bio-diesel since Canola meal has more value as an animal feed. Bio-Extraction's technology allows the utilization of high erucic acid oil which is better suited to bio-diesel production and to extracting high-quality proteins for human consumption. The glucosinolates found at higher levels in high erucic acid rapeseed may also be separated and recovered for use as natural pesticides and/or for conversion for use as anti-oxidants.

The Company's technology represents an excellent opportunity for both developed and developing countries interested in growing crops to produce bio-diesel while at the same time producing high-quality food grade proteins and other saleable bi-products. Developing countries could reduce their reliance on foreign oil and address a major nutritional deficiency by producing a healthy, cost-effective vegetable protein for consumption by their population.

Industrial Oil Recovery/Process Grinding Sludge

The Company's technology maybe of interest to the recycling and scrap-metal industry. The efficiency of its technology allows for superior extraction of mineral-grade oils from such industrial materials as metal grinding sludge/swarf. Coated with oil, this grinding swarf has little or no value and can be detrimental to the environment. After the oil is extracted using the Company's technology, the residual metals which are often valuable alloys are sufficiently pure to be recycled back into the production of alloys such as high-speed steel. The oil recovered is of high enough quality to be reused as lubricating oil in metal grinding and machining processes.

At present the industry relies on drying oil contaminated metal sludge/swarf in kiln dryers or furnaces where the oil is burned off and not recovered. In some cases the swarf is land-filled. These options are hazardous to the environment. Alternative physical and chemical separation procedures have been tried but result in the metal swarf being recycled into lower-grade, lower-value metal products. It is expected that with Bio-Extraction process, there are no negative environmental issues and the process is very cost-effective, often adding value that is several times the cost of processing the material.

The Bio-Extraction process operates at relatively low temperatures and does not produce the air emissions that result with the inefficient burning of oils in kiln dryers and or furnaces.

ANALYST CERTIFICATION

Each Research Analyst who was involved in the preparation of this Research Report hereby certifies that: (1) the views, opinions, and recommendations expressed in this Research Report reflect accurately the Research Analyst's personal views concerning any and all securities and issuers that are discussed herein and are the subject matter of this Research Report; and (2) the fees, earnings, or compensation, in any form, payable to the Research Analyst, is not and will not, directly or indirectly, be related to the specific views, opinions, and recommendations expressed by the Research Analyst in this Research Report.

eResearch analysts on this report: Bob Leshchyshen B.A., MBA, CFA: Bob Leshchyshen has extensive research and analytical experience with several prominent equity research and credit-rating organizations, including Northern Securities, St. James Securities, Dominion Bond Rating Service, PPM Fund Mangers (Canada), a unit of Prudential Life Insurance Company, and McNeil Mantha. His analytical career has spanned more than 25 years with particular emphasis on the financial sector and special situations.

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eResearch Recommendation System

Strong Buy:	Expected total return within the next 12 months is at least 40%.
Buy:	Expected total return within the next 12 months is between 10% and 40%.
Speculative Buy:	Expected total return within the next 12 months is substantial, but Risk is High (see below).
Hold:	Expected total return within the next 12 months is between 0% and 10%.
Sell:	Expected total return within the next 12 months is negative.

eResearch Risk Rating System

A company may have some, but not necessarily all, of the following characteristics of a specific risk rating to qualify for that rating:

High Risk:	<i>Financial</i> - Little or no revenue and earnings, limited financial history, weak balance sheet, negative free cash flows, poor working capital solvency, no dividends. <i>Operational</i> - Weak competitive market position, early stage of development, unproven operating plan, high cost structure, industry consolidating, business model/technology unproven or out-of-date.
Medium Risk:	<i>Financial</i> - Several years of revenue and positive earnings, balance sheet in line with industry average, positive free cash flow, adequate working capital solvency, may or may not pay a dividend. <i>Operational</i> - Competitive market position and cost structure, industry stable, business model/technology is well established and consistent with current state of industry
Low Risk:	<i>Financial</i> - Strong revenue growth and earnings over several years, stronger than average balance sheet, strong positive free cash flows, above average working capital solvency, company may pay (and stock may yield) substantial dividends or company may actively buy back stock. <i>Operational</i> - Dominant player in its market, below average cost structure, company may be a consolidator, company may have a leading market/technology position.

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Bio-Extraction Inc. paid eResearch a fee of \$17,500+GST to conduct research on the Company on an Annual Continual Basis.

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