

November 23, 2004

ELECTRIC AQUAGENICS UNLIMITED, INC. (OTC BB: EAQU.OB)

Rating: Speculative Buy

Financial Summary	
52-Week Range	\$3.15 - 5.95
Recent Price (11/22/04)	\$3.95
Market Cap, Mn	\$26.8
Current Shares Outstanding, Mn	6.78
Float	n.a.
Avg. Daily Trading Volume (3 month)	3395
Insider Holdings	49.7%
Institutional Holdings	n.a.
LTM Revenues	\$350,420
LTM, EPS	\$(0.69)
FY 2003 Revenues	\$225,000
3Q 2004 Revenues	\$150,420
Fiscal Year-End	31-Dec
Current Book Value (per share)	\$0.48
Employees	n.a.

Dec Yr. end US\$	FY02A	FY03A	9moFY04A
Total sales	112,061	225,000	325,420
COGS	51,446	114,783	82,340
Gross Profit	60,615	110,217	243,080
Other expenses	505,064	927,569	3,491,766
Operating income	-444,449	-817,352	-3,248,686
Pre tax income	-673,925	-871,094	-3,283,541
Net income	-673,925	-871,094	-3,283,541
Total Assets	341,928	1,019,903	3,627,940
Total Liabilities	652,372	532,972	337874
Total Debt	498,000	370,486	293924
Shareholders Equity	-310,444	486,931	3,290,066
Debt/Equity	n.m.	0.76	0.09
ROE	n.m.	n.m.	n.m.
ROA	n.m.	n.m.	n.m.
EPS	-0.24	-0.28	-0.60

Source: Yahoo Finance, SEC filings, Analyst Estimates

Investment Summary

We are initiating coverage of Electric Aquagenics Unlimited, Inc (EAQU) with a Speculative Buy rating. We believe that EAQU is now past its development stage and is entering the initial growth phase. Its strategy of joint venture agreements/affiliations with industry leaders in respective target markets should enable it to quickly capture market share without incurring significant marketing expense. Over the next 12-18 months, we expect revenue and earnings to be driven by introduction of several distinct products including: 1) bottled drinking water, 2) carpet cleaning solutions, 3) poultry industry installations, 4) mould remediation solutions 5) wholesale/retail grocery maintenance solutions and 6) beef processing intervention. Implementation risk is our biggest concern for EAQU as the company has now just begun to deploy its full-scale products in key target markets. Secondly, in order to implement its business plan, EAQU will have to raise additional financing in equity or debt capital. Any delay or shortage of funding could adversely affect our projections.

Company background

Electric Aquagenics Unlimited ('EAQU') was founded in 1998 and incorporated in 2000 under the law of the state Delaware. Its incorporated name was Primacide, Inc. and it was the successor of the Primacide LLC. The company changed its name to Electric Aquagenics Unlimited in 2001.

EAQU is in the business of developing, manufacturing and marketing equipment that uses water electrolysis to create fluids that disinfect, sanitize and clean surfaces. Depending on the chemical composition, the electrolyzed fluids are called either Primacide A, B or C (hereafter collectively referred to as 'Primacide fluids') and are trade marked under the brand name "Empowered Water" The Primacide fluids are both environmentally safe and free from toxins, and do not yield harmful residues associated with traditional chemical based disinfecting and cleaning agents. EAQU intends to deploy its Primacide fluids in several industries, with initial focus being on poultry, grocery chain, drinking water, mold remediation, carpet cleaning and beef processing.

What are Primacide fluids?

EAQU's patent pending solutions leverage a unique combination of cell technology employing water, sodium and electricity. Primacide fluids are unique in that they are much more cost-effective and have no toxicity. Derivative products can be applied to surface areas as an antimicrobial application. Within seconds of coming in contact with Primacide fluids, bacteria, viruses, spores and molds are dramatically reduced.

Primacide fluids work by first damaging the cell wall membrane from the effects of high oxidative reduction potential (ORP). The microbe's cell wall is compromised such that an osmotic or hydration overload occurs and the acidic fluid floods the cell faster than the cell can expel it, literally causing it to burst. This "physical" kill is one of the unique qualities that makes Primacide different from the toxic "chemical" or "pharmaceutical" kill products now being used in commercial and residential disinfectants and cleaners. Standard toxic chemicals create resistant strains of pathogens, thus greatly decreasing effectiveness over time.

The Primacide fluids have been tested at more than a dozen different university labs and professional testing facilities. According to EAQU's management, over 35 Ph.D. scientists have tested the Primacide fluids and generated hundreds of tests completed over the last eight years. The Primacide fluids have been tested by the following universities/testing centres:

- University of Colorado, School of Medicine
- Brigham Young University, Microbiology/Chemistry Dept.
- Consumer Product Testing Labs, Fairfield, NJ
- Combustion Resources, Inc., Provo, Utah
- University of Idaho
- NAMSA, Irvine, California (Consumer)
- Professional Testing Labs, Dalton, Georgia
- Restoration Science, Inc. Mold & Sewer Remediation
- University of Georgia: Poultry Science, Athens Campus & Food Science, Griffin Campus
- University of Idaho
- USDA, Russell Research Center, Athens, Georgia
- USDA @ Lexington, Nebraska Beef Plant
- Amick Farms, Batesburg, S. Carolina
- Murrays Chicken, S. Fallsburg, New York

Additional independent testing of the fluids and micro-fiber cloths has been performed by: Dr. C. H. Bohach, University of Idaho. International testing has been performed by: Actuelle Tricot, Boras Sweden; University of Kyoto, Kyoto, Japan.

- **Primacide A** is a fluid for disinfecting and sanitizing various surfaces such as cleaning floors in hospital operating rooms, bench tops, treatment tables, cutting boards and other similar surfaces. It kills bacteria,

yeast, moulds and viruses, including e-coli, salmonella, staphylococcus, streptococcus, lysteria, campylobacter, vibrio vulnificus, and other bacteria and microorganisms on foods and food contact surfaces. This fluid is highly oxidative and acidic due to its pH of 2.4 and positive 1150 milivolt ORP and HOCl of 10 to 150 ppm. The Primacide A fluid used for cleaning surfaces is considered more effective comparing to surfaces cleaned and disinfected by the 62% alcohol. The fluid can be used to sanitize and disinfect meat and poultry carcasses, strawberries, lettuce, cabbage, carrots and other vegetables. EAQU received a patent for using Primacide A in sanitizing eggs with several utility applications regarding food uses.

- **Primacide B** is an alkaline-based fluid used for cleaning surfaces of oils, fats and other lipids. Because it has no surfactant base, it leaves no residue when used to clean surfaces. The fluid is created as a result of the electrolysis process with a sodium hydroxide ion attached to the oxygen and hydrogen molecules. It is very alkaline, having a pH of 11.0 to 11.5. Due to the fact that it has a negative 960-milivolt ORP, it is effective in cutting oil and grease and can be used as a pre-spray on beef and poultry carcasses. Primacide B is primarily a cleaner with some bacteria killing properties, however it is significantly slower and less effective as a bacteria killer than Primacide A. EAQU received a patent for using Primacide B in carpet cleaning.
- **Primacide C** was developed by the University of Georgia and EAQU and is designed for use in various surfaces from spray on produce in grocery stores to consumer products requiring shelf life. The fluid stabilizes acid water and is a high disinfectant while being far less oxidative due to the changes in the properties of the fluid. The pH is up to 5, the ORP is dropped to +900 mV and the ppm of HOCl can range from 10 to 150. EAQU.IOB holds an exclusive, worldwide license for this patent pending technology for the life of the patent from the University of Georgia, Athens, Georgia.

Investment Highlights

A new relationship with Cornell Capital Partners LP, a private equity fund to provide EAQU \$10 million in the form of a Standby Equity Distribution Agreement.

Under the terms of the agreement, Cornell has made a firm commitment to provide up to \$10 million of funding to the EAQU over a 24-month period to be drawn down solely at the EAQU discretion by the sale of its common stock to Cornell.

Changing Business model

EAQU is in the process of transforming its business model from having a single revenue source, i.e. carpet cleaning, to one with multiple revenue streams. These multiple revenue streams would be derived from new usage of Primacide fluids in differing industries such as poultry, beef, consumer products and grocery. Initial testing of Primacide fluids for use in different industries has yielded positive results, thereby enabling EAQU to establish joint venture (JV)/affiliate relationships with leaders in respective target markets. The Company refers to this strategy as “Joint Venture Leveraging”. We believe that these JV/affiliate relationships are very critical, as they enable EAQU to quickly gain customer exposure and get invaluable ‘endorsement’ from respective industry leaders. Furthermore, the strategy of using JV/affiliate marketing team to market EAQU products significantly reduces the need for large investment in sales and marketing efforts. EAQU has entered into joint venture agreements for distribution of its Primacide fluid generators into specific markets: carpet cleaning, poultry processing, drinking water, grocery produce spraying, mold remediation and oyster deperation. Beef and fish JV’s are in final closing stages.

Joint Venture partners

Date	Company	Type of contract	Details
August, 2004	<i>Aquagen International,</i> Salt Lake City	Joint venture	Joint development of commercial drinking water and other water based consumer products.
July, 2004	<i>Murray's Chicken Processing Facility,</i>	Sales/leasing contract	Empowered water generators installed into Murray's Chicken.

	New York			
June, 2004	Covenant Water Systems, Gainesville	Exclusive contract	distribution	Covenant Water Systems will market, install and service EAQU electrolysis machines within the poultry industry.
June, 2004	Innovative Oyster Processing, New Orleans	Exclusive joint venture		Marketing of EAQU products to the Oyster industry.
May, 2004	KES Science & Technology, Inc., Atlanta	Exclusive contract	distribution	Marketing of EAQU products to food and agriculture; childcare, medical healthcare, dental health and physician offices businesses and industries
2002	AcquaSafe Enviro Recovery Inc. (AER) & Restoration Sciences Inc.	Exclusive contract	distribution	Marketing of EAQU generators to mold remediation industry

Source: press release

Strategic partnerships/JV yielding positive results

The JV led marketing strategy has already started yielding positive results. For instance, EAQU's marketing agreement with Covenant Water Systems Inc. ('Covenant') has enabled it to install its Primacide fluid generator at two poultry processing plants, i.e. Amick Farms (South Carolina) and Murray's Chicken (New York). Covenant is a JV between EAQU and R-Square Products Inc. R-Square is a specialty supply service, water treatment and equipment company providing total sanitation and water treatment programs exclusively to the food, particularly processing industry.

Similarly, EAQU has signed an exclusive distributorship agreement with KES Science & Technology, Inc. ('KES') to market its products into the grocery produce spraying market. KES is a leading global provider and innovator of post harvest preservation technology, products and services. It has 75 US distributors, and serves major US and global food wholesalers and retailers including Kroger, Wal-Mart, Safeway, Publix, Albertson's, Winn-Dixie, the US Military and several energy companies. Internationally, KES' has distribution arrangements in Canada, the United Kingdom, Spain, China, Thailand and Japan. KES services an estimated 70% of the top 37,000 grocery stores in the US¹. We believe that KES' distribution network and existing client relationship would significantly help EAQU market its Primacide fluid as a replacement for traditional misting systems in grocery stores.

EAQU has also entered into a joint venture arrangement with a Louisiana shrimp and oyster producer to provide equipment that will produce Primacide fluids to clean and sanitize oysters. EAQU has installed its Primacide fluid generators at the University of Georgia, Food Science Department to conduct the preliminary tests for oyster depuration. According to the management, these tests have been very successful in killing the vibrio organism in oysters. A second generator is now installed at Oregon State University with Dr. Su to complete the oyster protocols that will be used for market penetration. The company expects to commercially launch generators for the oyster industry by 2Q '05.

Furthermore, in 2001, EAQU signed a five-year exclusive agreement with its affiliate company Zerorez Franchising Systems, Inc, a carpet cleaning company. According to EAQU, Zerorez franchisees are likely to purchase the EAQU's generators for producing Primacide B. EAQU expects Zerorez franchisees to purchase 50 generators in 2004 and 2005 .

¹ Source: Press release by EAQU - http://biz.yahoo.com/prnews/040824/nytu097_1.html

EAQU signed a five year exclusive agreement in late 2002 with AER (AquaSafe Enviro Recovery, Inc.), to use EAU generators in the mold remediation industry. This contract was entered into simultaneously with Restoration Sciences, Inc., Charlotte, N. Carolina. First Restoration is operated by Dr. Gene Cole, Ph D., Brigham Young University (formerly with the University of North Carolina), and Dr. Bruce Lantrip, Ph D, University of N. Carolina. Both are currently performing and preparing high level scientific tests to establish protocols for residential and commercial mold remediation procedures using the Primacide fluids and the KES Science (KesAirocide) technology.

Large potential target market

Carpet cleaning market: The US carpet and upholstery cleaning market is estimated to be approx. \$4.5 billion in total revenue². Residential customers account for about 80% of the total market³. More importantly, the carpet cleaning industry is highly fragmented, which allows new players to enter and exit the market relatively easily. EAQU intends to capitalize on its ‘chemical free’ carpet cleaning technology that uses Primacide fluids, by expanding the Zerorez franchise. Currently, there are xx Zerorex franchisees. The management expects the number of franchisees to increase from 26 currently, to 60 by end of 2005. Assuming an average selling price of \$25,000/unit for Primacide fluid generator, we estimate revenue from Zerorex franchise to be \$1.5million by end of FY05.

Commercial drinking water market: In Aug’04, EAQU signed a joint venture agreement with Aquagen International, Inc. Aquagen manufactures and markets products that include liquid stabilized oxygen supplements. It markets its products domestically and internationally. Its products include, Aquagen®, Maximum Strength, Aquagen®, Revitalize and Aquagen®, Essential, safe, reliable and convenient sources of additional oxygen. Aquagen® is an oxygen supplement that is pH balanced and recognized by the FDA as a dietary supplement. Oxytime+® is Aquagen's unique sports energy drink. Oxytime+® provides a competitive edge for the serious athlete.. Pursuant to the contract, EAQU and Acuagen will collectively introduce therapeutic drinking water product in 4Q04 based on one of EAQU’s Empowered Water fluids. We believe that therapeutic water segment represents a huge target market for EAQU. According to the Beverage Marketing Corporation, 6.4 billion gallons of bottled water was consumed in US in 2003, valued at approx. \$8.2billion.

U.S. BOTTLED WATER MARKET				
Volume and Producer Revenues				
1993 – 2003(P)				
Year	Millions of Gallons	Annual % Change	Millions of Dollars	Annual % Change
1993	2,689.4	8.2%	\$2,876.7	8.2%
1994	2,966.4	10.3%	\$3,164.3	10.0%
1995	3,226.9	8.8%	\$3,521.9	11.3%
1996	3,495.1	8.3%	\$3,835.4	8.9%
1997	3,794.3	8.6%	\$4,222.7	10.1%
1998	4,130.7	8.9%	\$4,666.1	10.5%
1999	4,583.4	11.0%	\$5,314.7	13.9%
2000	4,904.4	7.0%	\$5,809.0	9.3%
2001	5,372.1	9.5%	\$6,880.0	18.4%
2002	5,950.7	10.8%	\$7,725.0	12.3%
2003(P)	6,395.0	7.5%	\$8,277.2	7.1%

(P) Preliminary
Source: Beverage Marketing Corporation

² <http://www.biz-lib.com/ZMTCCI.html>

³ <http://www.cminstitute.net/storelistitem.cfm?itemnumber=237>

Poultry Industry: EAQU is targeting the poultry industry through its agreement with Covenant Water Systems. We believe that the poultry industry represents a huge market potential particularly given the large volume of water used. According to industry data, approx. 6-8 gallons of water per bird is used by the poultry industry. Given that 5.3bn young chickens were slaughtered between Jan-Aug'04 (on average approx. 8bn a year), the poultry industry used 31.8-42.4bn gallons of water. Extrapolating the YTD (year to date) numbers, we estimate the industry's annual water usage to be approx. 48-64billion gallons.

Mold Remediation: The mold remediated industry consists of home and commercial cleanup and reconstruction following natural disasters. EAQU signed an agreement with Aqua Enviro Recovery, Inc to use the EAQU equipment for its offices Utah and Texas. Aqua Enviro Recovery intends to purchase 75 generators during 2004-2005 for disaster cleanup and reconstruction business. EAQU also has an equipment supply agreement with AER Inc., one of the largest flood and fire restoration company specializing in mold remediation. AER has been field testing various protocols for use of the Primacide fluids over the past 18 months. The results have been successful and this data will be submitted to Restoration Sciences, Inc. for establishment of the final protocols for commercialization of the technology. Restoration Sciences is headed up by Dr. Gene Cole, PhD and Dr. Bruce Landtrip, PhD from Brigham Young University and the University of North Carolina respectively. The result of these tests and protocols are likely to be used to establish a new industry standard for mold remediation and environmental cleanup.

Grocery Store Meat Departments: EAQU has an exclusive agreement with KES Science and Technology (KES), for the marketing of EAQU products within the grocery arena. In August'04, KES installed two Primacide fluid generators for beta testing at major grocery store chains. We believe that EAQU's agreement with KES gives it with a strong foothold within the grocery/wholesale food preservation industry. KES provides preservation products and services for produce, meat and floral to wholesale and retail grocery stores, cold storage warehouses and florists in the U.S. and worldwide. With 75 US distributors, KES has a strong roster of clients including Kroger, Wal-Mart, Safeway, Publix, Albertson's, Winn-Dixie, the US Military and several energy companies. KES' global distributor network includes Canada, the United Kingdom, Spain, China, Thailand, and Japan.

KES' selected customer base

Company	Number of Stores
Safeway	1,595
Kroger (combos and superstores)	2,124
Publix	826
Albertsons	2,300
Walmart (Superstores)	1,615

Source: Company websites

Revenue Model & Valuation

As EAQU is currently in the process of expanding its product line through JV agreements, its future revenues would depend on revenue derived from separate segments. Regarding valuation, as EAQU has yet to report any major revenue from sale of Primacide fluid generators, it is not possible to determine its fair value (i.e. target price). Moreover, we believe that any estimate of target price without earnings guidance from the company or in absence of reported earnings would be redundant. Below we have tried to estimate potential revenue stream from sale of Primacide generators through KES. These estimates are based on publicly available information such as in press releases. However, as the company has yet to report actual sale of products through KES, our estimates may vary significantly from actual reported numbers.

	FY05E	FY06E
Number of stores with systems installed	150	750
Avg. selling price per system	\$17,000	\$17,000
Revenue	\$2.55mn	\$12.75mn
Revenue/share	\$0.42	\$2.11

Key Risk Factors

Lack of awareness among potential customers due to novice technology: EAQU's technology remains to be fully tested on a commercial scale. Moreover, as the technology is new, early adoption might be slow, resulting in slower than expected revenue growth. Furthermore, EAQU is highly dependent on JV partners to market its technology. Severance of JV relationships could adversely impact EAQU's marketing ability.

Short list of customers makes EAQU's revenue vulnerable. There is a risk that EAQU will not be able to continue as a going concern, in case its management fails to attract new customers.

Going concern risk: EAQU needs additional funding to finance its growth strategy. Any lack of funding or delay thereof, could adversely affect the ability of the firm to continue operations. Moreover, investors may also be affected by equity dilution in case of an equity raise.

Liquidity risk: Potential investors also need to wary of liquidity risk in EAQU stock. The stock is very thinly traded and thus presents high liquidity risk.

Financial Performance

Our discussion of EAQU's financial performance below does not fully reflect the company's growth potential. As discussed the in the report, EAQU is going through a transition, whereby new revenue streams shall start to impact both the top and bottom line.

Revenue: Total revenue during 9monthsFY04 (ending 30 Sept'04) increased to \$325,420 from \$200,000 in the corresponding period last year. Almost all the revenue during 9monthsFY04 was related to the Zerorez franchise.

Gross profit and operating profit: Whereas gross profit during 9monthsFY04 remained at a positive \$243,080, operating loss jumped to \$3.25 million during 9monthsFY04 from \$497,363 in 9monthsFY03. The increase in operating loss can be attributable to higher legal and consulting fees, largely paid through issuance of new shares. Going forward, we do expect operating expenses to fall in line with historical average.

Net income: Aggregate net loss jumped to \$3.28 million during 9monthsFY04, compared to \$550,630 in the corresponding period last year. The increase in net loss was largely due to higher operating loss.

Management

Gaylord M. Karren – Chairman, President, Chief Executive Officer and co-founder

Mr. Karren is one of the co-founders of the EAQU. He also co-founded and managed Venturi Technologies, one of the largest publicly traded carpet cleaning companies, from 1992 until 2000. He is a graduate of Brigham Young University.

John Hopkins – Director and Co-founder

Mr. Hopkins is one of the co-founders of the EAQU. He is also an advisor to the H2O AquaCare Franchising Systems, Inc., another carpet cleaning franchise. Mr. Hopkins was also the founder and President of Venturi Technologies, Inc. and founded and managed DASCO Technologies, an oil and gas service company. He holds two patents related to carpet cleaning.

James K. Stone – Director and Co-founder

Mr. Stone is one of the co-founders of the EAQU. He is the president and member of the board of the directors of H2O AquaCare Franchising Systems, Inc. Previously, he was the owner of Venturi Flood & Fire Restoration, Inc., a cleaning and restoration company. He also served as a Vice President of Operations of Venturi

Technologies, Inc. Mr. Stone was the founder of Pro-Tech Restoration and Stone Flood and Fire as well as the founder of a securities firm.

Doug Kindred – Chief Engineer

Mr. Kindred has over 27 years of management and engineering experience in numerous industries. He was a co-owner and Vice President of ESI, Inc., a turnkey, design/build engineering construction firm for over 18 years. He served as President of an air pollution control equipment manufacturer prior to joining EAU, Inc. He has extensive experience throughout his career with the production of premium quality water including numerous boiler feed water systems that utilized demineralizers, automated acid and caustic regeneration systems, water softeners and condensate polishing systems for various industries. Mr. Kindred holds a B.S. degree in Mechanical Engineering from Georgia Tech and is a graduate of the Kenan-Flagler Business School Executive Program at The University of North Carolina, Chapel Hill. He is a registered professional engineer.

DISCLAIMER

Waheed Hassan, CFA was a Senior Research Analyst at an affiliate of Merrill Lynch, UBS Warburg, and Indosuez W.I. Carr Securities. He was ranked among the #1 Financial Services Research Analyst in The Reuters Survey of Global Emerging Markets in 1998. He was also member of the #1 ranked research teams in The Reuters Survey of 1999 and The Euromoney Awards for Excellence 2000. He worked as a Research Consultant in Dresdner Kleinwort Wasserstein's equity research group in New York. Waheed got his CFA charter in 2000 and his MBA degree from Vanderbilt University, in 2002.

Spelman Research Associates, Ltd, is an independent fee based research, publishing and distribution firm whose contract analyst adhere to the ethics and standards of the Association for Investment Research Management . The views expressed in this research report reflect the analyst's personal views about the issuer and its securities. Opinions and recommendations contained in this report are submitted solely for advisory and information purposes and are not intended as an offering or a solicitation to buy or sell the securities mentioned above. The analysts are responsible only to the public and this report is not a service to the company. We received a fee of \$23,500 from the company for one year's coverage. We do not inform any company in advance of the nature or conclusions of our analysts' reports in advance of paying the fee nor can a company withdraw from coverage before the expiration of the one year term. Neither the Analysts nor the company own equity or debt securities of the companies on which our contract analysts report. More information about Spelman Research 's policies are available at www.spelmanresearch.com.

Spelman Research Associates, Ltd., 545 Madison Avenue, Suite 200, New York City, NY 10028 Phone: (212) 838 5520 Fax: (212) 838 5352 Web: www.spelmanresearch.com Email: info@spelmanresearch.com.