

July 11, 2005

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

Rating: Speculative Buy

Price target: \$6.26

Financial Summary		US\$ '000	2004A	2005E	2006E	2007E
52-Week Range	\$3.00/\$6.50	Revenue	325	1,238	8,385	22,912
Recent Price (07/08/05)	\$4.40	EBITDA	(3,770)	(5,733)	(4,152)	841
Market Cap, \$ mn	24.7	Operating Income	(3,821)	(5,930)	(4,518)	410
Current Shares Outstanding, mn	5.61	Net Income	(3,961)	(5,656)	(4,583)	347
Float, mn	5.8	Cash	383	63	218	799
Avg. Daily Trading Volume (3m)	4,775	Total Assets	3,907	4,317	4,568	7,013
Insider Holdings	24%	Total Debt	292	238	692	443
Institutional Holdings	N/A	Shareholders' Equity	3,303	3,155	2,572	4,919
Fiscal Year-End	31-Dec	Debt/Equity	0.1	0.1	0.3	0.1
Current Book Value (per share)	\$0.81	EPS	\$(0.71)	\$(0.98)	\$(0.69)	\$0.05

Sources: Yahoo! Finance, Analyst Estimates

SUMMARY OF ANALYST RATING AND RATIONALE

We are initiating coverage of Electric Aquagenics Unlimited, Inc. with a Speculative Buy rating. EAQU is a development stage company that is now entering the initial growth phase and could see explosive growth in revenues and net income in the near future. The company possesses a specific technology involving special water treatment that will be fructified across a number of industries. Over the next 12-18 months, we expect revenue and earnings to be driven by the 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. EAQU's 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. The recent hiring of four new senior managers recognized by management as industry leaders should also serve as a catalyst in the current growth phase.

Despite the high potential of the company, we are adding the "Speculative" characteristic to the rating. Implementation risk is our biggest concern for EAQU as the company has now just begun to deploy its products in key target markets. Secondly, in order to implement its business plan, EAQU will have to raise additional financing through equity or debt issuance. Any delay or shortage of funding could adversely affect EAQU's performance.

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INVESTMENT MERITS

- **Launch of the Perfect Empowered Drinking Water.** In April'05, EAQU announced the launch of its "Perfect Empowered Drinking Water" – a commercial drinking water product. The Company believes that due to the unique process, the Perfect Empowered Drinking Water has the ability to hydrate more thoroughly, increase energy and alertness, enhance the immune system, reduce acidity level and oxygenate the body like no other water available. EAQU intends to negotiate with several major fitness chains, international MLM organizations and health and grocery stores to distribute the water via them.

Meanwhile, following the launch of the commercial drinking product, in June 05, EAQU announced that its bottled water product, Perfect Empowered Drinking Water, is available for purchase at all eleven Harmon's grocery and natural food stores across the state of Utah. In addition, by the end of June, EAQU announced that the Perfect Water is also available for purchase online for consumers worldwide. We believe this product may be an early winner through its obvious differentiation from other competing products available in the market. It may capitalize on the increasing health awareness towards more clean and natural products.

- **Uniqueness of technology and products position EAQU as the benchmark in water-based cleaning and disinfecting products.** In our view, the main attraction point of EAQU is the uniqueness of its products and technologies. Whether it is drinking water, poultry disinfectant or household cleaning materials, there is something unique about company's products – it uses treated water, instead of numerous and potentially hazardous chemical materials employed by traditional competitors in respective areas. EAQU management stated that the technology developed and fluids used for cleaning and sanitizing purposes are characterized by effectiveness, competitive price, and environmentally safe non-toxicity. A number of institutions and consumer product test centers involving over 30 PhD scientists have documented the effectiveness and safety of the technology. Due to the unique product characteristics and potential marketing outlets, EAQU can fill the niche market for environmentally safe and non-toxic cleaning products. We believe that all these advantages will later turn into higher sales and improved financial outcome.

- **Expected favorable market trends.** According to the U.S. Commercial & Residential Cleaning Services Industry report issued in 2004 by Marketdata, commercial contract cleaning and maintenance services market grew by 5.9% in 2003, reaching \$94 billion. The same report forecast a 6.3% increase for 2004 and a 7% growth until 2008, the total market size reaching \$128 billion¹. We believe that EAQU will take advantage of the market growth and will surpass the overall market trend.

- **Promising start up contracts that may influence the sales in the coming months.** Starting in 2004, EAQU management carried out negotiations with a number of potential strategic partners and analyzed the possibilities of establishing several new joint ventures. We expect that the newly established entities and contracts will directly impact EAQU's revenue in the second half of 2005 as announced by management.

INVESTMENT RISKS

- **Lack of awareness among potential customers due to the novelty of the products.** The developed technology is rather new and there is a need to build awareness among potential customers on the characteristics of the product as an efficient and non toxic product. It will take time to build a brand awareness and a loyal customer pool, however given the nature of the product and the efforts by company management, it might happen sooner rather than later. There is however a risk during this period as the company will have to invest in this business up to the point of break-even and profitability.

¹ <http://www.cminstitute.net/storelistitem.cfm?itemnumber=237>

- **Low stock liquidity.** The average daily trading volume of EAQU's stock is very low. As of July 1'05, the daily trading volume was 21,927 and the average trading volume for the last three months was 5,257. We consider that this could limit significantly the investor's willingness to buy EAQU's stock.

- **EAQU's affiliate company Zerorez accounted for all the Company's revenue.** In 2004, EAQU sold 13 water generators for \$325,000, all of which were sold to its affiliated company. Besides this, generators were the only products that generated revenue in 2004. The operations in 2005 have shown that the company is focused on expanding its customer outreach and it is becoming less and less dependent on the relationship with this affiliated entity.

- **Lack of operating history.** As a development stage company, EAQU has not yet reported positive income. Increased operating costs and weak sales led to negative financial outcomes. Therefore, it is rather difficult to make projections about the Company's financial performance. Moreover, given the large number of potential projects and partnership currently under consideration, it is likely that some of them will have a speedier development than others and they will be prioritized in terms of funding and management attention. Therefore, there is a degree of uncertainty about future company's financial and strategic direction. We appreciate that the company is now will be

- **Potential dilution.** During 2004, EAQU raised approximately \$4 million through registered private offerings of 2,250,000 shares of common stock. In Q1FY05, EAQU continued to raise funds offering 850,000 shares. The current cash burning rate of the company is approximately \$1.5-2.0 million per quarter with only minimal revenues. Total current assets as of March 31, 2005 were 2.7 million, one-half of which was inventory. EAQU will need to raise additional capital during 2005 in order to continue operations. We consider that the stock placement was very substantial taking into account the weighted number of shares at the issuance date. Since EAQU used to convert its debt into shares in the past, we consider that there is a further dilution effect risk. For a conservative approach, we calculated the price target based on the forward number of shares projected for the end of 2006.

OTHER INVESTMENT CONSIDERATIONS

- **A new model of generator.** EAQU has developed a new model of water-electrolyzing generator, which is assembled from components from third parties. The new generator produces higher levels of HOCl and stabilized acid water unavailable before. In addition, higher volume generators are in the design stage and are expected to be available within the next 6 months.

- **Manufacturing agreement.** In March'05, EAQU entered into a manufacturing agreement with Power & Electric Company. Pursuant to the contract, EAQU will outsource certain manufacturing responsibilities for the expanding line of equipment, including large poultry processors.

- **Sales of interest in Biofilm Strategies Corporation.** In April'05, EAQU sold 359,000 shares representing 30% stake in Biofilm Strategies Corporation, for about \$0.7 million in cash. Management decided to sell EAQU's interest due to the fact that it no longer fitted into the Company's strategy. The sale resulted in a gain of \$0.36 million, as the total amount paid was \$0.36 million.

- **Venture Technologies.** Gaylord M. Karren, John Hopkins, James K. Stone and Randy K. Johnson – a number of current officers and directors of EAQU – had in the past co-founded and/ or run Venturi Technologies, a publicly held national carpet cleaning roll-up company. The company filed for protection under Chapter 11 in 2001 and the latest filing with the SEC was dated 20/26/2001. While we do not believe that this information is indicative of future results in any way, we did consider it material enough to be included in the report. The multitude of recent events show that EAQU management is currently considering a more broad-based business strategy than the original carpet-cleaning business and is therefore exposed to a different set of market risks and opportunities.

RECENT EVENTS

- **On June 7'05, EAQU entered into a Memorandum of Understanding Regarding Installation and Trial of Antimicrobial System with Tyson Foods, Inc., a Delaware corporation.** According to the agreement, EAQU will install its EOW+ System at Tyson's chicken processing facility located in Tennessee. EAQU will conduct research and development to evaluate the efficacy of electrolyzed water in pathogen management on raw poultry products
- **On June 7'05, EAQU announced the introduction of a new version of its Empowered Water Pathogen Intervention System based on substantially larger electrolyzed oxidative cells.** The new product cleans the entire surface of the affected area. With the new system, EAQU can customize generators by making C-Series cells to produce fluids in increments of 200 gallons per hour.
- **On June 2'05, EAQU and its joint venture partner, American MoldGuard, announced the launch of Zero Plus, a Safe Living Initiative incorporating EAQU's Empowered Water as new cleaning technology for carpet and living surfaces care.** The new product is primarily designed for cleaning surfaces in problem areas like the locker room, shower, sauna, handlebars, headrests, mats. Zero Plus will benefit mainly individuals who frequent public fitness facilities or any environment exposed to germs.

VALUATION

We employed DCF and price-to-sales models to evaluate the current fair value per share and to derive a future price target. While EAQU is in the growth stage, we do not foresee any positive EPS until FY07, so we are limited in using such models as P/E and P/EBITDA.

The major assumptions underlying our DCF calculation are listed below:

All figures in USD 000's, except per share data

MAJOR ASSUMPTIONS

WACC Calculation	
Stock Price	\$4.40
Shares Outstanding	5,606
Shares Outstanding, CA06*	7,011
Mkt Cap	24,664
Book Value of Net Debt	267
Beta	1.50
Risk Premium	4.5%
Risk Free Rate	4.5%
Small- cap premium	1.0%
Cost of Equity	12.3%
Long-term Equity Weight	65%
Weighted Cost of Equity	8%
Cost of Debt	6.5%
Long-term Tax rate	37%
Tax Effect Cost of Debt	4.1%
Long-term Debt Weight	35%
Weighted cost of Debt	1.4%
WACC	9.4%
Terminal growth	6%

USD 000's	FYE05E	FYE06E	FYE07E	FYE08E	FYE09E	FYE10E	Terminal Value
EBIT	(5,930)	(4,518)	410	2,500	3,750	5,625	
EBIT (1-T)	(5,930)	(4,518)	410	2,500	3,750	3,544	
Dep & Amort	197	367	431	550	688	742	
(-) Cap Ex	(813)	(490)	(320)	(375)	(469)	(703)	
(-) Changes in Non Cash Working Capital	109	(326)	(889)	(500)	(200)	(50)	
Free Cash Flow	(6,437)	(4,968)	(368)	2,175	3,769	3,533	69,469

Discounted Cash Flow	FYE05E	FYE06E	P/S valuation	
DCF stream	(4,332)	1,699	Revenues FY07E	22,912
DC terminal value	40,531	44,339	Industry multiple**	3.1
Total DC Enterprise Value	36,200	46,038	Discount assumed***	-40%
(Less) Interest Liabilities, plus cash	(568)	1,500	Company traded at multiple	1.9
Equity Value	36,767	44,538	Equity value	43,165
Equity Value Per Share	\$5.24	\$6.35	Price target	\$6.16

Weighted target price	\$6.26
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* targets are calculated based on forward number of shares

** the multiple was derived using the multiples from the waste management, water utility, personal & households and beverage industries to reflect the portfolio of EAQU's businesses

***15% discount for the forward nature of the multiple – FY06 calculation on FY07 data, 15% size and liquidity, 10% incipient stage discount.

OUR PRICE TARGET OF **\$6.26** IS AN EQUAL-WEIGHT AVERAGE OF THE TWO METHODOLOGIES EMPLOYED ABOVE: DCF AND PSR. GIVEN EAQU'S EXPECTED HIGH GROWTH BUT ALSO CONSIDERING THE NUMEROUS RISKS, WE RATE THE COMPANY AS SPECULATIVE BUY.

COMPANY BACKGROUND

Electric Aquagenics Unlimited develops, manufactures and markets purification equipment using technologies that sanitize and clean surfaces using water electrolysis worldwide. Equipment sales were the main source of revenue in the past. The entity was founded in 1998 and was incorporated in 2000 under the laws of the state of Delaware under the name Primacide, Inc. and it was the successor of the Primacide LLC. In 2001, it received the current name Electric Aquagenics Unlimited.

EAQU is a producer and supplier of water-based products and services used for cleaning, disinheriting, hydrating and moisturizing. It has solutions for the existing bacteria, virus and mold proliferation threat. The company developed its own technology applied for production of water-based and completely non-toxic products and services. It manufactures and markets equipment that uses electrolysis to create fluids that sanitize and clean surfaces. The fluids generated by EAQU's machines are environmentally safe and free from toxins and harmful residues associated with chemical-based disinfecting and cleaning agents. EAQU carried out a set of tests with major universities that highlighted the increased pathogen killing effectiveness in food processing, mould remediation and carpet cleaning industries. Unlike the traditional chemical-based technology, EAQU's approach based on electrolyzed fluids is environmentally safe and free from toxins and harmful residues. The disinfecting and cleaning technology may be used in commercial, industrial and consumer household applications.

Business model

Initially, EAQU's business model was built on the reselling of water electrolyzing machines to carpet cleaning companies. Subsequently, the business evolved, EAQU can now use its core technology in a larger set of

applications. It discovered and tested new uses and applications for electrolyzed water used for disinfecting, sanitizing and cleaning surfaces, as well as other uses, for example drinking water.

The current business model is based a joint venture leveraging structure, moving away from having a single revenue source, i.e. just carpet cleaning, to multiple revenue streams. These multiple revenue streams would be derived from the new usage of Primacide fluids in different 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/affiliate relationships with leaders in respective target markets. The Company refers to this strategy as “Joint Venture Leveraging”. We believe that these joint venture/affiliate relationships are very critical, as they enable EAQU to quickly gain customer exposure and get invaluable ‘endorsement’ from respective industry leaders. EAQU has entered into joint venture agreements for distribution of its Primacide fluid generators to specific markets: carpet cleaning, poultry processing, drinking water, grocery produce spraying, mold remediation and oyster depuration.

EAQU also sells electrolyzed fluid that is produced by generators placed on-site at commercial manufacturing facilities, particularly in the food-producing sector in need of high volumes of non-toxic sanitizing fluids. Electrolyzed sanitizing fluids can be metered. Metering represents charging per unit of fluid used at the plant where EAQU’s equipment is installed, or a rate based on the number of items processed in a given period. In addition, each customer pays for ongoing service and maintenance contract. Currently, generators at several commercial manufacturing facilities have been installed, for in-plant beta testing.

So far, EAQU’s affiliated company Zerorez Franchising Systems, Inc. was the largest revenue generator. Zerorez currently has twenty six franchisees, with plans to expand their number, intending to sell forty-five new franchises by December’05.

Products

Electrolyzed Fluids and Generators

EAQU’s main product range consists of water electrolyzing machines, also called generators, which, depending on the type of customer, may be installed on their site for direct production of high volumes of non-toxic sanitizing electrolyzed fluid. Currently, the revenue is generated primarily from the selling or leasing of generators. They are based on the use of electrolyzed water to kill bacteria, viruses and fungus and to clean the living environment without the use of toxic chemicals. Stabilized acid electrolyzed water is available on the market. It is expected that several new models now in the development stage will be released in the future.

EAQU has recently developed a new model of water-electrolyzing generator, which is assembled from third-party components. These generators produce higher levels of HOCl and stabilized acid water unavailable before. In addition, higher volume generators are in the design stage and are expected to be available within the next 6 months.

There are seven generator models currently offered to customers. They are divided into the following two categories:

- **Residential Generators** produce both alkaline water and acidic water. They can be used for cleaning and disinfecting small areas, such as home or office environments. The price for this type of generators varies from \$600 to \$2,000.
- **Commercial Generators** may be sold directly or may be placed on-site against payments based on the amount of fluid produced or the volume of items treated with the fluid. EAQU provides a three-year warranty for repair and parts replacement. The prices for the commercial generators vary from \$12,000 to over \$300,000.

Water-electrolyzing generators produce electrolyzed water that can be utilized by customers according to the type of fluid. EAQU’s generators produce four types of electrolyzed water with varying ORP, pH levels and ppm

of HOCl. There are opportunities to expand the range of applications for electrolyzed water with specific microorganism killing properties, by producing different models of electrolyzing machines for generating electrolyzed water.

The following are the fluids and their disinfecting and cleaning properties:

- **Primacide A** is a fluid for cleaning and disinfecting various surfaces such as floors in hospital operating rooms, bench tops, treatment tables, cutting boards as well as 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. This fluid is highly oxidative and acidic due to its pH of 2.4 and positive 1150 millivolt ORP and HOCl of 10 to 150 ppm. The Primacide A fluid used for cleaning surfaces is considered more effective compared to 62% alcohol. The fluid can be used to sanitize and disinfect meat carcasses, strawberries, lettuce, cabbage, carrots and other vegetables. EAQU received a patent for using Primacide A in sanitizing eggs.
- **Primacide B** is an alkali-based fluid used for cleaning and disinfecting surfaces of oils, fats and other lipids. Because it has no surfactants, it leaves no residue when used to clean surfaces. The fluid is created as a result of an 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 860-millivolt ORP result in a product, 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 a significantly slower and less effective bacteria killer than Primacide A. EAQU received a patent for using Primacide B in carpet cleaning.
- **Primacide C** is a recently developed fluid and is designed for using in various surfaces from spraying on produce in grocery stores to consumer products requiring shelf life. The fluid stabilizes acid water and is a powerful 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. Dr. Yen Con Hung from the University of Georgia developed the product. EAQU holds an exclusive world wide license for this patent pending technology for the life of the patent. The range of concentrations of HOCl, an active ingredient, is from 10 ppm to 120 ppm. It is currently being tested as a spray on produce in grocery stores.
- **The Hydrator** is filtered pH-balanced drinking water. It hydrates more effectively than standard culinary water.

Besides the Primacide series of fluids, EAQU has intentions to develop new ranges of fluids by researching the cleaning and sanitizing properties of electrolyzed water with varying ORP and pH levels and HOCl content. Among them are:

- *storage, processing and shipping* of fruits, vegetables and meat;
- *health and beauty aids*: body care, body wipes, health care and medical equipment and facilities, day care facilities, janitorial, mould control, non-prescription pharmaceutical products, waste management and culinary water systems.

The name Primacide and the term Empowered Water and Empowering Water were registered with the U.S. Patent and Trademark Office. The names Primacide A, Primacide B, Primacide C, EAU, and Electric Aquagenics Unlimited are also registered trademarks.

Aquagen Products and Other Commercial Products

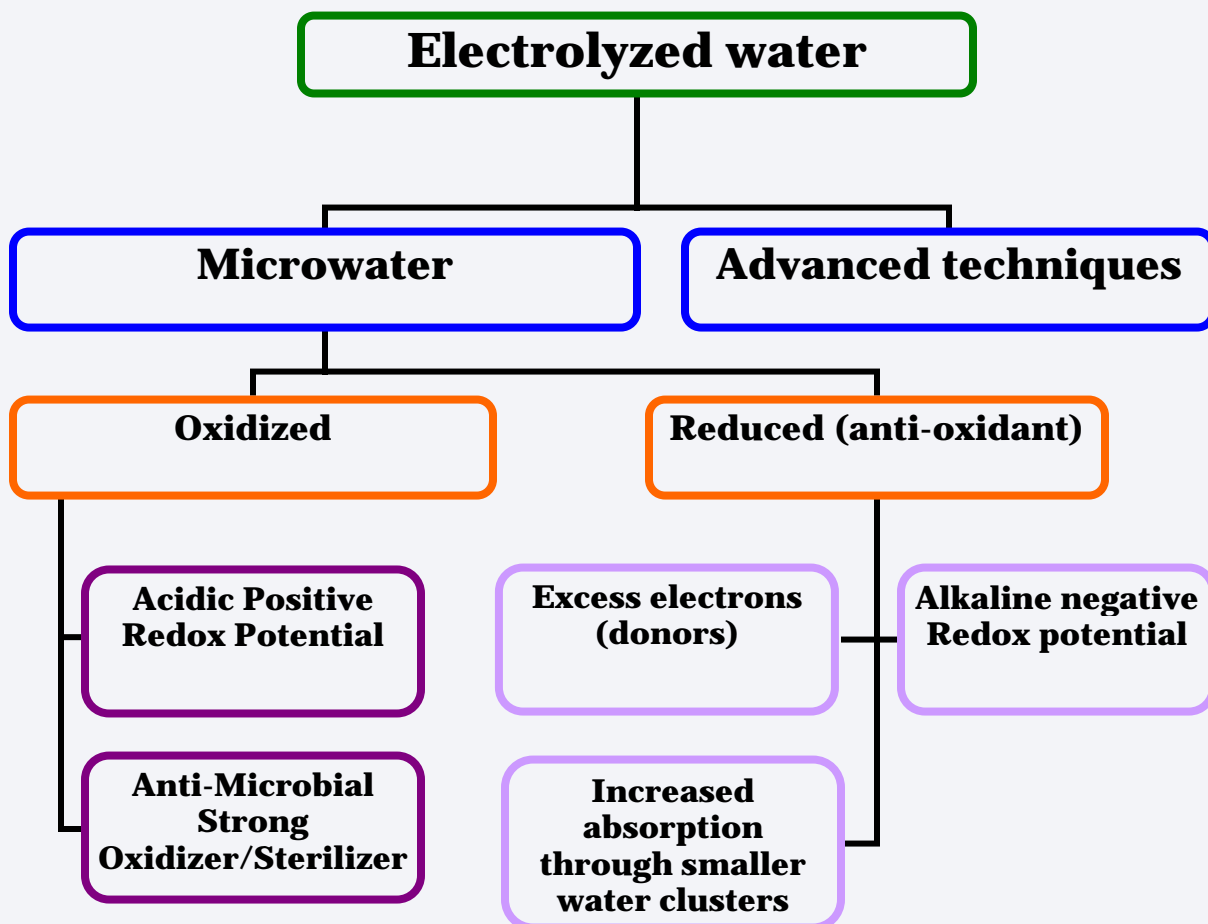
Besides fluids and generators, EAQU markets a suite of products for personal use and for commercial and residential applications. There are also plans to develop other personal use products, such as skin care products, periodontal products and a hand sanitizer product.

- **Oxygen supplement products** – Aquagen, Maximum Strength, Revitalized and Aquagen, Essential; OxyTime+, a pre sports energy drink; and Oxytime, a colon detox product. These products are sold on the health food and nutraceutical markets.
- **Perfect Empowered Drinking Water** – emerged from the combination of the technologies of Aquagen with its own purified, re-mineralized, ionized and micro-structured water. The main benefit of the Perfect Water is that it enhances the immune system, reduces acidity levels and oxygenates the body like no other water. The Perfect Empowered Drinking Water was launched on the market during the second quarter of 2005. According to management, there is already some interest from several major fitness chains, an international MLM organization and health and grocery stores.
- **Germ Free 60** – a non-toxic hand sanitizer that kills all forms of bacteria on contact. The technology is owned by Coating Systems Laboratories and approved by FDA. EAQU has signed with the owner of the product an exclusive agreement to sell and market the Germ Free 60 product.

The technological process overview

Electrolyzed water is considered “functional” water that can be used in a large number of domains, including sanitizing and cleaning in restaurants, commercial building cleaning, medical and dental applications and other areas where microbial growth is known to present potential health threat. It can kill bacteria, viruses and other biological contaminants in various areas of applications and provides significant and highly beneficial effects to plants, animals and humans.

Figure: Water treatment process produces two forms of altered water: oxidized and anti-oxidized



Source: <http://www.aquatechnology.net/electrolyzed.html>

Electrolysis as a water treatment process typically produces two forms of altered water: reduced or alkaline (high pH) water and oxidized or acidic (low pH) water. Sodium chloride salts (NaCl) are added to pure water and voltage is applied across anode and cathode. Cathode area produces alkaline (reducing) water while anode area produces acidic (oxidizing) water with high ORP, low pH, high Dissolved Oxygen (DO) and residual Cl and hypochlorous acid.

Technology testing

EAQU carried out tests on all its products launched on the market in independent laboratories in order to test the effects of the fluids used for cleaning and disinfecting purposes. Over the last years, more than 35 Ph.D scientists and more than a dozen different university labs and professional facilities have tested EAQU's technology. It is estimated that over \$30 million have been spent to bring the technology to where it is today.

The following institutions verified the technology:

- 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;
- UNLV/BYU Mold & Sewer Remediation;
- University of Georgia.

Additionally, independent testing of the fluids and micro-fiber cloths has been performed at University of Idaho, University of Kyoto, Japan and other universities.

Current contracts

Zerorez Franchising Systems. EAQU has been deriving most of its revenue from the franchisees of Zerorez Franchising Systems, Inc., EAQU's affiliated entity with similar stockholders. In 2001, EAQU signed a five-year exclusive agreement with Zerorez, a carpet cleaning company. According to EAQU, Zerorez franchisees are likely to purchase EAQU's generators for producing Primacide B. In 2004, EAQU sold 13 water generators to Zerorez for \$325,000, accounting for all EAQU's sales reported in 2004.

Covenant Water Systems. A marketing agreement signed in 2004 with Covenant Water Systems Inc. has enabled EAQU to install its Primacide fluid generator at Murray's Chicken Processing Facility. Covenant is a joint venture 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. Although preliminary results of the efficacy of the fluid in killing common poultry pathogens have been encouraging, EAQU plans to stop its relationship with Covenant in 2005 by canceling the joint venture relationship and bringing poultry sales in house.

Aquagen International. In 2004, EAQU entered into a joint venture agreement with Aquagen International, Inc. to form a new entity Aquagen, LLC. By the end of 2004, EAQU and Aquagen agreed to merge the two companies.

Oyster Processing Systems. Pursuant to the signed licensed contract, Oyster Processing Systems will market EAQU's equipment to the oyster processing industry.

American Mold Guard. Furthermore, EAQU also entered into a joint venture agreement with American Mold Guard. According to the agreement, EAQU promotes, distributes and sells American Mold

Guard mold remediation products to the Zerorez franchisees and American Mold Guard promotes and sells EAQU's products to its customers.

Louisiana shrimp and oyster producer. 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 preliminary tests for oyster depuration. According to management, these tests have been very successful in killing the vibrio organism in oysters.

KES Science & Technology. Similarly, EAQU has signed an exclusive distributorship agreement with KES Science & Technology, Inc. ('KES') to market its products to 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 US. We believe that KES' distribution network and existing client relationships would significantly help EAQU market its Primacide fluid as a replacement for the traditional misting systems in grocery stores.

ByoCoat Strategies Corporation. Recently, EAQU invested capital to acquire a 40% ownership interest in ByoCoat Strategies Corporation, which is involved in developing products to control or eliminate Lysteria and biofilm in cooked and ready to eat meats. The transaction will allow EAQU to enter a new segment.

The most important agreements

Date	Company	Type of contract	Details
2001	Zerorez Franchising Systems, Inc.	A five-year exclusive agreement	Affiliated company with same shareholders as EAQU. Zerorez franchisees purchase EAQU's generators for producing Primacide B.
December, 2004	Aquagen International, Salt Lake City	EAQU acquired 100% of interest	Joint development of commercial drinking water and other water-based products.
April, 2004	ByoCoat Strategies Corporation, Inc.	EAQU acquired 40% of interest (as of 12/31/04 EAQU paid 33.3% of interest)	Developing products to control or eliminate Lysteria and biofilm in cooked and ready to eat meats.
July, 2004	Murray's Chicken Processing Facility, New York	Sales/leasing contract	Empowered water generators installed at Murray's Chicken.
June, 2004	Covenant Water Systems, Gainesville	Exclusive distribution contract	Covenant Water Systems will market, install and service EAQU's electrolysis machines within the poultry industry.
June, 2004	Innovative Oyster Processing, New Orleans	Exclusive joint venture	Marketing of EAQU's products to the Oyster industry.

May, 2004	KES Science & Technology, Inc., Atlanta	Exclusive contract	distribution	Marketing of EAQU's products to food and agriculture, childcare, medical healthcare, dental health and physician offices businesses and industries.
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Source: SEC Filings

Potential niche segments for EAQU's products

Professional carpet cleaning market. The US carpet and upholstery cleaning market is estimated to be approximately \$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.

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 Aquagen agreed to collectively introduce therapeutic drinking water product based on one of EAQU's Empowered Water fluids. We believe that therapeutic water segment represents a huge target market for EAQU.

Poultry Industry. EAQU targets the poultry industry through its agreement with Covenant Water Systems. In 2004, EAQU reported first revenues from Murray's Chicken. We believe that the poultry industry represents a huge market potential, particularly given the large volume of water used. According to industry data, approximately 6-8 gallons of water per bird is used by the poultry industry. Given that, on average, approximately 8 billion chickens are slaughtered each year, we estimate the industry's annual water usage to be approximately 48-64 billion gallons. EAQU is in the process of identifying facilities in which it will install its generators in 2005.

Mold Remediation. The mold remediation industry consists of home and commercial cleanup and reconstruction following natural disasters. EAQU signed an agreement with Aqua Enviro Recovery, Inc. to use EAQU's equipment for its offices in Utah and Texas. EAQU also has an equipment supply agreement with AER Inc., one of the largest flood and fire restoration companies specializing in mold remediation. AER has been field-testing various protocols for the 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 the establishment of final protocols for the commercialization of the technology.

EAQU also entered into a joint venture with Mold Guard to promote, distribute and sell American Mold Guard mold remediation products to Zerorez franchisees and to promote and market EAQU's products to American Mold Guard's customers.

Food Packaging. EAQU intends to market Primacide A as a sanitizer in seafood processing facilities. Oyster tests are currently being conducted through several recognized universities. Besides, Primacide A can be used for other purposes, such as vegetable washing and surface sanitization in the food packing industry. EAQU signed an exclusive joint venture with Innovative Oyster Processing, LLC for marketing EAQU's products to the Oyster Industry.

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

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

Grocery Store Meat Departments. One of the purposes of developing Primacide C was to apply it in cleaning and sanitizing grocery store meat departments. Through KES Science and Technology, EAQU will extend Primacide C for using in the spraying systems now in place in over 115,000 grocery stores. Primacide C acts as a cleaner and disinfectant on cutting surfaces in meat departments of grocery stores where products, such as beef, poultry and seafood, are cut and packaged, and respectively cross contamination occurs.

EAQU has an exclusive agreement with KES Science and Technology for marketing EAQU's 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 a strong foothold within the grocery/wholesale food preservation industry. KES provides preservation products to wholesale and retail grocery stores, cold storage warehouses and florists in the U.S. and worldwide.

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

Fish processing industry. EAQU analyses the opportunities to apply its fluids in the fish processing industry. Several tests are being conducted in New Zealand and there are some intentions with a Cook Island company to market the fluids within this industry. A large percentage of total allowable catch is lost due to inadequate processes to avoid contaminated sea foods. The Primacide fluids might reduce this loss, increasing the volumes of delivery of decontaminated fish to the market. EAQU will work on further development of this marketing channel in 2005.

In addition, oyster tests are now being conducted through the University of Georgia, Oregon State University and LSU. EAQU is advised in its development by Dr. Yen-Con Hung, Professor of Food Engineering at the University of Georgia, a recognized researcher in this field.

Air Sanitation. KesAir Technologies, LLC is in process of introducing its AiroCide – an air pathogen removal technology used in medical healthcare, childcare, mold remediation and other industries. EAQU has a 2% interest in KesAir Technologies, LLC.

Other commercial products. EAQU intends to develop a suite of other commercial products, such as baby wipes, commercial cleaning products, periodontal products and all-purpose surface-cleaning products.

Marketing and distribution strategy

EAQU employs four persons who work with potential customers to market and sell generators. There are also two employees who manage public relations. In the foreseeable future, EAQU plans to rely on its own employees to market the products. The main markets where EAQU can sell its products are: professional carpet cleaning, poultry industry, beef industry, home carpet and floor cleaning, food packaging, disaster cleanup and mold remediation, citrus, fish, oysters, produce and citrus industries

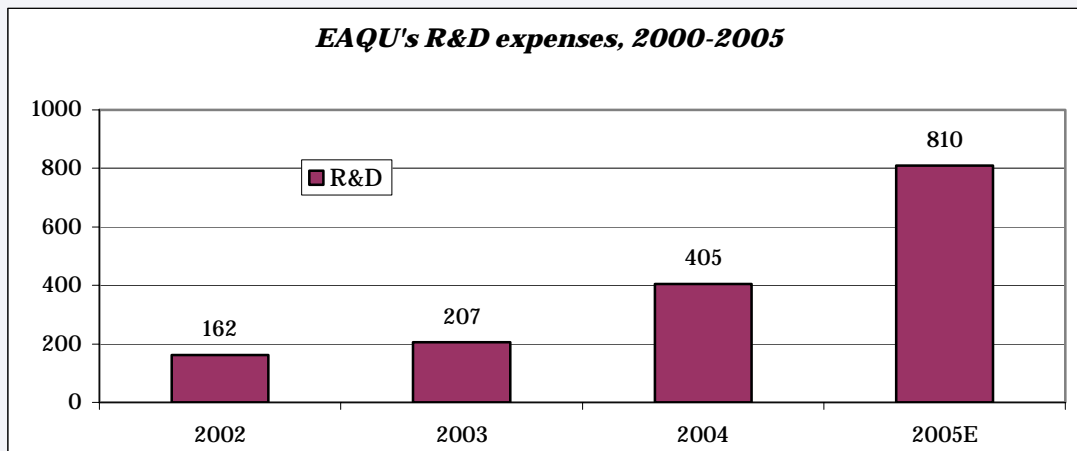
The distribution of goods is conducted from the corporate offices. However, management plans that as soon as generator sales volume increases and electrolyzed fluid product lines are launched, EAQU will build a network of resellers, consisting primarily of:

- employees;
- third party distributors;
- joint venture partners with established distribution channels.

Research and Development

R&D expenses surged significantly over the last three years. For instance, during FY04, on sales of \$325,000, R&D expenses were \$405,000, or 25% higher. R&D activities are channeled to develop the following technologies to:

- Generate electrolyzed water that has a slower oxidation rate;
- Sanitize agricultural products;
- Enhance current products for further use in carpet cleaning;
- Sanitize and disinfect hard and soft surfaces;
- Provide superior personal care;
- Create more effective and easier to use home surface sanitation products;
- Develop new products that benefit from Empowered Water and Aquagen technologies;
- Provide a superior drinking and commercial-use water product.



Source: SEC filings, analyst estimates

MANAGEMENT

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

Mr. Gaylord M. Karren is one of EAQU's co-founders. He also co-founded and managed from 1992 until 2000 Venturi Technologies, one of the largest publicly traded carpet cleaning companies. He graduated from Brigham Young University in finance and banking.

John Hopkins – Director and Co-founder

Mr. John Hopkins is one of EAQU's co-founders. He is also an advisor to the H2O AquaCare Franchising Systems, Inc., specialized in selling and operating carpet cleaning franchises using EAQU's products. H2O AquaCare Franchising Systems, Inc. is an affiliate company of EAQU. 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 also holds two patents related to carpet cleaning. He attended Utah State University.

James K. Stone – Director and Co-founder

Mr. James K. Stone is one of EAQU's co-founders. He is the president and member of the board of directors of H2O AquaCare Franchising Systems, Inc., an affiliate of EAQU, engaged in the sale and operation of carpet cleaning franchises utilizing products developed and manufactured by the EAQU. Prior to his actual positions, he was the owner of Venturi Flood & Fire Restoration, Inc., dealing with the cleaning and restoration of properties damaged in natural disasters, after which he served as 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.

Peter Whitfield – Director

Mr. Peter Whitfield is the Chairman, Chief Executive Officer and a major shareholder of Universal Air Cargo Pty Ltd, an air cargo company. He also owned and operated air forwarding and air cargo companies in New Zealand and Australia. Mr. Whitfield has a vast experience in sales management positions with air cargo and forwarding business. He graduated from the Victoria University in New Zealand.

Gail V. Anderson, Jr. – Director

Mr. Gail V. Anderson serves as the Medical Director of the Harbor - UCLA Medical Center. He is also an Assistant Dean of the School of Medicine at UCLA. Mr. Anderson has a vast experience in healthcare serving in various positions in the medical sphere such as Acting Chief Medical Officer for the Department of Health Services of the County of Los Angeles, Associate Dean of the School of Medicine at Emory University in Atlanta, director of the American College of Emergency Physicians, etc. He graduated from the University of Southern California and holds an MBA degree from the Emory University Business School.

Bill Warwick – Director and shareholder

Mr. Bill Warwick is a member of the International Cabinet at the University of North Carolina at Wilmington, North Carolina. He served for 39 years for AT&T at different top management positions, including President of AT&T Consumer Products, Senior Vice President AT&T and Chairman and CEO, AT&T China. He holds BSBA from the University of North Carolina, Chapel Hill and an MBA degree from Northwestern University, Chicago.

Randy K. Johnson – Director

Mr. Randy K. Johnson is a shareholder with a Kirton & McConkie, a law firm. Prior to this, he worked for Daw Technologies, specialized in the design, fabrication and construction of clean rooms for the electronics and pharmaceutical industries as Vice President, Secretary and General Counsel. He also served as Executive Vice President, Secretary and General Counsel of Venturi Technologies between 1999 and 2000. Mr. Johnson was also engaged as an associate and partner with several law firms. He holds an A.B. from the University of California at Berkeley and a J.D. from the Boalt Hall School of Law at the University of California at Berkeley.

New senior top managers

In the middle of May'05, EAQU hired and appointed four new senior top managers, who will head three of EAQU's divisions:

Poultry**Larry Earle – Vice President of Live Processing**

He has a vast experience in process operations, management and engineering. Over the last years he held various positions within the industry as a production superintendent, plant manager and operations consultant for companies such as Seaboard Farms, Inc., ConAgra Foods, Inc. and Cagle's, Inc. Prior to this, he worked as a project and business manager for an industrial engineering firm. He holds a BBA in Agricultural Business Management from West Georgia College of the University of Georgia and a range of specific certificates. Mr. Earle together with Mr. Scruggs will be responsible for developing and expanding EAQU's Empowered Water technology for the poultry industry.

Terry Scruggs – Field Supervisor within the Poultry division

Prior to joining EAQU, Terry Scruggs since 1994 has served as a consultant for a large number of companies like Tyson Foods, Inc., Pilgrim's Pride Corporation, Marshall Durbin Companies, Columbia Farms and ConAgra Foods, Inc. He also worked for a chemical company called EZE Products, as an engineer.

Grocery**James Thatcher – Vice President of the Grocery division**

He has over 30 years of experience in the grocery business. Since 2004, he was the President of the company he had founded, JCT Business Solutions, specialized in providing marketing and customer relationship strategies

and support to a variety of manufacturers, wholesalers, brokers and retailers. Prior to this, he worked as Vice President of Winn-Dixie Stores, Inc. and President of the SaveRite Grocery Warehouse Division. In addition, he held a number of other important positions with some of the nation's largest retail and wholesale organizations.

Environmental control

Brad Barnes – Vice President of Environmental Control

Prior to joining EAQU, Mr. Barnes served as the President and Co-Founder of American Mold Guard, Inc. He also consulted with a variety of companies that include Fortress Financial, SeaBreeze Financial, and Brinderson Corporation. In addition, he worked as Vice President of Sales and Marketing for Directfit, a B2B web-centric IT-recruiting company. He graduated from San Diego State University with a Bachelor of Arts degree in Business Administration and Marketing.

INDUSTRY

Competition

The cleaning and sanitation industry is characterized as a fast evolving segment with a large number of products, high industry standards and technologically advanced new product introductions. Although the market is considered to be fragmented, there is a number of large and financially healthy players. The industry is characterized by an increased number of entrepreneurial business operators, most of which are small, sole proprietors. In 2002, there were 427,000 establishments, while another 154,000 were larger companies with payrolls and employees⁴. The large number of companies is explained by the fact that there are no market entry barriers and it is easy to enter with new products. Often the franchising business model is applied.

Cleaning franchises grew slightly in price since 2001, while the royalty rates declined to an average 6.6% of net sales. Currently the start-up costs for a franchise is \$39,469 which is about 5% more than three years ago. Franchise fee represents approximately \$17,086 and start-up costs are \$22,383⁵.

The leading commercial cleaning companies are: ABM Industries, Encompass Services Corp, CleanNet USA, Coverall North America, OneSource, Jani-King International, O.P.E.N. America, Service Master Ltd, Swisher International, Tower Cleaning Systems. Total revenues of the top eight franchisers amounted to \$1.8 billion, and the top non-franchise contractors such as ABM Industries, Unicco, Temco, and OneSource recorded sales approximating \$3 billion. Together, the top 12 companies in the industry are estimated to register only 5% of industry's total sales.

Overall market trends

• Commercial cleaning services

According to the US Commercial & Residential Cleaning Services Industry report issued by Marketdata, commercial contract cleaning and maintenance services market in 2003 was \$94 billion. The business is considered to be very competitive, comprised of 507,000 mostly small operators, including 25,000 franchised units⁶. Approximately 582,000 cleaning service entities employ 1.54 million workers, with a payroll of \$29.3 billion. However, during the last years, more call centers and "back office" jobs have moved outside the US and accordingly, less space is occupied in the US buildings, thus less space needs to be cleaned or maintained. More employees work from home and more companies share space today, as cost controls are tightened. This acts as a damper for cleaning contractors' growth.

⁴ http://www.cmmonline.com/news.asp?mode=4&N_ID=49391

⁵ <http://www.cminstitute.net/storelistitem.cfm?itemnumber=237>

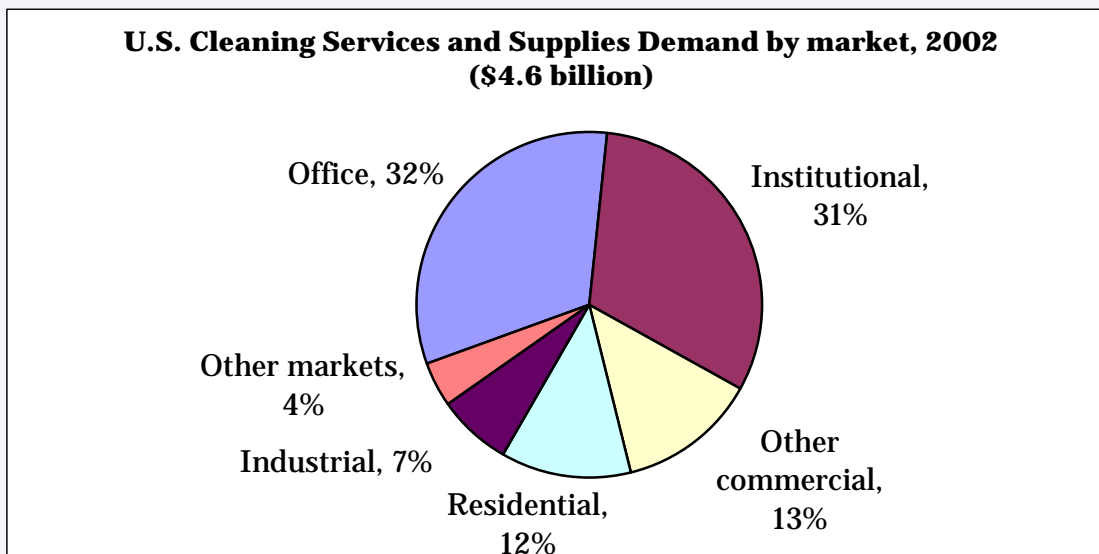
⁶ <http://www.cminstitute.net/storelistitem.cfm?itemnumber=237>

Geographically, the Northeast region is forecast to surpass the South as the largest consumer of janitorial services and supplies in the US in the next few years due to its characteristics: large commercialized and densely populated areas. Currently, the South region is considered to be the largest market for janitorial supplies and services.

Between 1996 and 2000, the commercial cleaning services witnessed a double-digit growth. In 2001-2002, the industry grew by 5.5%. Marketdata reported that in 2003, national receipts grew by 5.9% to \$94.5 billion, and 2004 growth was forecast at 6.3%. It is predicted that by 2008, the commercial and residential cleaning services market will reach \$128 billion growing yearly by 7%⁷. In 2002, the pre-tax profits of the companies involved in this sector reduced to 2.9% of net sales, as building managers squeezed more services out of contractors, competition remained intense and other operational costs were rising. Cleaning supplies accounted for more than 10% of cleaning industry revenues in 2002⁸.

According to a Freedonia Cleaning Services and Supplies report, the demand for contract cleaning services and supplies in the US is forecast to grow by around 7% per year, reaching \$50 billion by 2007⁹. Commercial office buildings still remain the most important end-user sector, the most demanded services consisting of building, dwelling and carpet cleaning. The recovery of the economy is considered the main factor that will sustain the demand for the cleaning services.

Residential cleaning services will record the fastest growth through 2007, supported by an increase in the number of households, which will expand the market for residential maid services. Residential maid services industry is considered to be \$2.2 billion, growing by 8.6% per year¹⁰.



Source: <http://www.freedoniagroup.com/pdf/1675web.pdf>

Office buildings remains the dominant market for the US cleaning services and supplies, institutional buildings standing very close to it. Although the office building market is expected to have the largest share for cleaning services and supplies, the residential services are forecast to achieve the highest growth rate until 2007. The rising rates in home ownership and the increasing number of dual-income households are two main reasons affecting the trend.

⁷ <http://www.cminstitute.net/storelistitem.cfm?itemnumber=237>

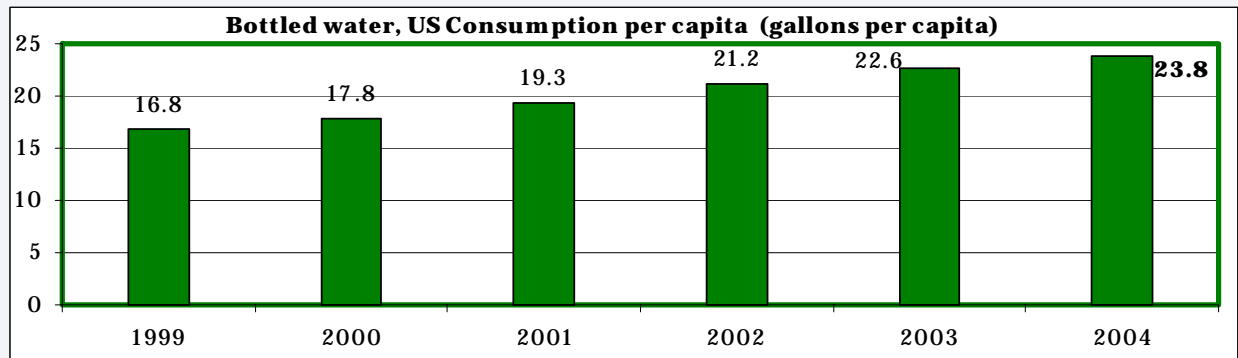
⁸ <http://www.freedoniagroup.com/pdf/1675web.pdf>

⁹ <http://www.freedoniagroup.com/pdf/1675web.pdf>

¹⁰ http://www.cmmonline.com/news.asp?mode=4&N_ID=49391

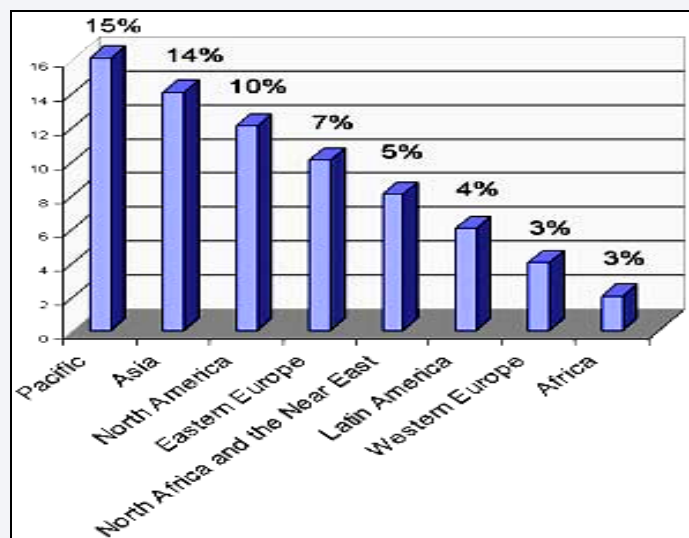
- **Bottled water consumption**

The US volume of bottled water reached 6.8 billion gallons in 2004, representing an 8.6% increase vs. 2003, higher than the 7.4% growth rate registered in 2003 vs. 2002. The US bottled water market reached new peaks not only in volume but also in wholesale dollar revenues approaching \$9.2 billion in 2004. US bottled water consumption reached 23.8 gallons per capita in 2004 compared to 22.6 gallons one year earlier. Per capita consumption has been growing by at least one gallon annually, and doubled during the last decade¹¹. While carbonized soft drinks still have double volumes compared to bottled water, the soft drink market has been stagnant during the last years, mainly due to competition from bottled water.



Source: Beverage Marketing Corporation

Pacific region has the highest growth rate of bottled water consumption (1999-2001)



Source: <http://www.uwec.edu/grossmzc/KLESSILL/>

¹¹ <http://www.beveragemarketing.com/news2vv.htm>

FINANCIAL HIGHLIGHTS

Income statement

In April 2005, EAQU launched its new product known as the “Perfect Empowered Drinking Water”, which is supposed to generate a significant portion of EAQU’s total revenue starting with Q2FY05.

So far, EAQU’s 2004 and Q1FY05 revenue was generated from the sale of generators to its affiliated carpet cleaning franchise Zerorez Franchising Systems.

Income statement

US\$' 000							
	Year end Dec.31	FY03	FY04	YoY%	Q1FY04	Q1FY05	YoY%
Revenues		225.0	325.0	44.4%	100.0	87.8	-12.2%
Gross Profit		110.2	246.4	123.6%	66.4	64.7	-2.6%
Expenses:							
<i>Marketing and promotion</i>		54.6	553.2	913.2%	203.8	205.0	0.6%
<i>Research and development</i>		206.5	405.4	96.3%	118.4	299.9	153.3%
<i>General and administrative</i>		666.5	3,108.7	366.4%	1,399.8	1,288.6	-7.9%
Total operating expenses		927.6	4,067.3	338.5%	1,792.4	1,722.0	-3.9%
Operating income		(817.4)	(3,820.9)	n/m	(1,655.6)	(1,727.7)	n/m
Net income		(871.1)	(3,961.2)	n/m	(1,729.8)	(1,751.4)	n/m
EPS		\$(0.28)	\$(0.71)	n/m	\$(0.41)	\$(0.31)	n/m
Gross margin		48.9%	75.8%	26.9 ppt	66.4%	73.7%	7.3 ppt

Source: SEC Filings

The 44% increase in EAQU’s revenue in FY04 compared to FY03 was impacted by an increase in sales of generators to carpet cleaning customers. During Q1FY05, EAQU’s revenue decreased by 12% compared to Q1FY04, due to the lower level of sales of generators than a year ago. The gross margin improved on a year-over-year basis by 27 percentage points in FY04 and by 7 percentage points in Q1FY05. In spite of such improvements, EAQU still failed to generate income from operations due to the small level of revenues and high level of operational expenses.

During FY04, all operational expenses items increased compared to FY03. The overall level of expenses was influenced mainly by expenses associated with the development, design and testing of new products, as well as increased legal and professional fees. During Q1FY05, total operating expenses declined by 4% compared to Q1FY04, which is attributable to the expenses related to the issuance of common stock during Q1FY04.

As EAQU is in the development, design and testing stage for new products, we expect its operational expenses to continue shifting up in the foreseeable future.

Balance sheet

Cash and cash equivalents decreased by 35% in FY04 from FY03. The decrease was mainly attributable to the increased operating expenses and lack of revenue during FY04. During Q1FY05, cash increased by 118% to represent 15% of total assets compared to 10% at the end of FY04. It was largely attributable to the sale of EAQU’s common stock during Q1FY05 in a private offering. EAQU’s total accounts receivable remained fairly constant during Q1FY05.

The inventory’s share of total assets increased by 14 percentage points to 50% of total assets at the end of Q1FY05 compared to 13% at the end of FY04. This inventory buildup is primarily a result of anticipated sales of bottled drinking water beginning with Q2FY05.

The increase in tangible as well as intangible assets during FY04 compared to FY03 was attributable to the acquisition of 100% of Aquagen International, Inc. The increase in PPE by 61% during Q1FY05 was mainly due to the additional capital expenditures to extend EAQU's facilities.

Almost \$1 million worth of assets acquired from Aquagen International, Inc. was represented by intangible assets other than goodwill. EAQU's intangible assets (that are not subject to amortization) are composed of registered patents and trademarks (3%) and intellectual property (97%). During Q1FY05, patents, trademarks and intellectual property increased slightly because of the development of new products. At the end of Q1FY05, goodwill represented 3% of total assets.

Since the end of FY04, EAQU has had virtually no debt.

Balance Sheet

US\$'000	31-Dec-03	31-Dec-04	31-Mar-05
<i>Cash and cash equivalents</i>	593.2	382.9	834.1
<i>Accounts receivable, net</i>	336.5	503.4	484.3
<i>Inventory</i>	48.8	503.3	1,343.2
Total current assets	978.5	1,389.6	2,661.6
<i>Property and equipment, net</i>	68.0	537.9	868.3
<i>Patents, trademarks and intellectual property, net</i>	0.0	1,009.2	1,030.8
Total assets	1,020.0	3,906.9	5,625.0
<i>LT Debt, net of current portion</i>	134.0	233.4	222.9
Total liabilities	487.0	604.1	1,068.9
Total shareholders' equity	533.0	3,302.8	4,556.1

Source: SEC Filings

Cash flow statement

During Q1FY05, EAQU continued to fail in generating cash from operations due to the lack of revenues and high level of operating expenses. A similar situation during FY04 did not prevent EAQU from investing \$1.3 million in other companies. During FY04, EAQU's investment activities included the following acquisitions:

Company	Acquisition price (US \$'000)
ByoCoat Strategies Corporation, Inc.	\$225.2
Zerorez Franchising Systems, Inc.	\$248.9
KesAir Technologies, LLC	\$300.0
Aquagen International, Inc.	\$1,125.0

Source: SEC Filings

As EAQU had cash deficit during FY04, all its acquisitions and operating activities were financed through \$3.9 million received from a public offering of common stock.

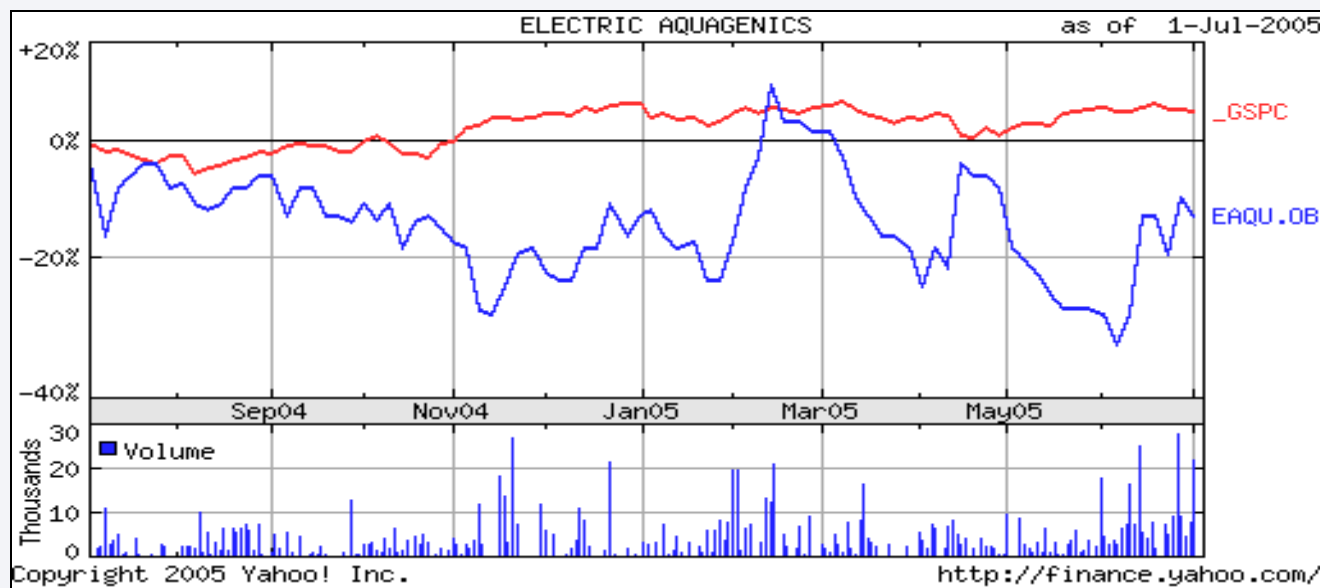
During Q1FY05, EAQU financed its operations and investments from the \$3 million cash received from a new public offering of common stock during the quarter. Given the large development projects, we expect EAQU to generate negative operating cash flows for at least two more years.

Cash Flow statement

US\$ thousands	FY03	FY04	YoY %	Q1FY04	Q1FY05	YoY %
Net cash (used in) operating activities	(1,005.7)	(2,680.5)	n/m	(1,767.6)	(2,029.8)	n/m
Net cash (used in) investing activities	(44.2)	(1,289.3)	n/m	(1,289.3)	(483.5)	n/m
Net cash provided by (used in) financing activities	1,613.6	3,759.3	n/m	2,963.6	2,964.5	0.03%
Net change in cash	593.2	382.9	-35.5%	1,789.3	834.1	-53.4%

Source: SEC Filings

EAQU'S STOCK PERFORMANCE VS. S&P 500, 1 YEAR



Source: <http://finance.yahoo.com/q/bc?t=1y&s=EAQU.OB&l=on&z=m&q=l&c=&c=%5EGSPC>

DISCLAIMER

Sergiu Lisnic, CFA is a Senior Analyst with Spelman Research. Prior to joining the Company, he worked as an analyst for Evanston Capital Advisors for a year and a half, and subsequently served for two years as a financial analyst with a gas distribution and a FMCG Company. He was primarily responsible for financial statement analysis, budgeting and reporting to shareholders. He earned the CFA title in September 2003.

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EARNINGS MODEL

Income Statement , USD, '000	FY03	FY04	Q1FY05	Q2FY05	Q3FY05	Q4FY05	FY05	FY06	FY07
Water, drinking.	0	0	0	0	200	400	600	5,700	16,700
Equipment	0	0	0	100	150	200	450	1,500	2,135
Hygiene products/electrolyzed water	0	0	0	0	20	80	100	1,185	4,077
NET SALES	225	325	88	100	370	680	1,238	8,385	22,912
	0	0	0	0	0	0	0	0	0
Water	0	0	0	0	135	255	390	3,294	9,008
Equipment	0	0	0	40	60	80	180	574	734
Hygiene products	0	0	0	0	0	0	0	359	1,427
COST OF GOODS SOLD	115	79	23	40	195	335	593	4,226	11,169
GROSS PROFIT	110	246	65	60	175	345	644	4,159	11,742
OPERATING EXPENSES									
General and administrative	928	3,109	1,288	1,300	1,100	1,122	4,810	5,884	7,240
Marketing and promotion	0	553	205	250	250	250	955	1,615	2,387
Research and development	207	405	300	170	170	170	810	1,178	1,705
Total operating expenses	928	4,067	1,792	1,720	1,520	1,542	6,574	8,677	11,332
LOSS FROM OPERATIONS	(817)	(3,821)	(1,728)	(1,660)	(1,345)	(1,197)	(5,930)	(4,518)	410
Other income (expense)	89	42	1	359	0	0	361	2	2
Interest expense-, net	(143)	(75)	2	(8)	(8)	(8)	(21)	(42)	(74)
Loss from equity method investee	0	(108)	(27)	(15)	(13)	(11)	(66)	(24)	8
LOSS BEFORE PROVISION FOR INCOME TAXES	(871)	(3,961)	(1,751)	(1,324)	(1,366)	(1,215)	(5,656)	(4,583)	347
NET LOSS	(871)	(3,961)	(1,751)	(1,324)	(1,366)	(1,215)	(5,656)	(4,583)	347
EPS	(\$0.28)	(\$0.71)	(\$0.31)	(\$0.24)	(\$0.24)	(\$0.20)	(\$0.98)	(\$0.69)	\$0.05
Weighted average shares outstanding	3,143	5,606	5,606	5,621	5,636	6,151	5,753	6,688	7,298