eResearch

Analyst: Scott Davidson, CFA

December 16, 2004

Recommendation

Speculative Buy

Target Price

$0.45

Risk

Medium

Avg. Daily Trading Vol.

343,000

Quick Facts

Recent Price	$0.15
Symbol	NNBP-OTCBB
Shares O/S	185.9 million
52 Wk. Range	$0.96-$0.06
Fiscal Year End	Dec. 31

	Rev. ($mln)	EPS
2003a	0.5	(0.05)
2004e	0.4	(0.05)
2005e	4.6	(0.01)
2006e	7.1	(0.01)

STRENGTHS

- **First mover advantage in a large market opportunity**
- **Current revenue stream from nutraceutical sales helps to fund ongoing research**
- **Co-founders are world-renown scientists and pioneers in the field of nanobacteria**
- **Strengthening intellectual property estate**

RISKS

- **Potential need for additional capital**
- **Requirement for continued scientific validation**
- **Liquidity of the stock**

CONCLUSION

- **Continued validation of the role of nanobacteria in diseases of pathological calcification should fuel tremendous growth opportunities in multiple markets**
- **Speculative Buy with potential for substantial price appreciation**

Nanobac Life Sciences, Inc.

Data Source: BigCharts.com

Nanobac Life Sciences, Inc. is dedicated to improving people's health through the detection and eradication of Nanobacterium sanguineum (Nanobacteria).

SUMMARY & RECOMMENDATION

We are initiating coverage on Nanobac Life Sciences, Inc. ("Nanobac", or "Company") with a Speculative Buy Rating and a 12-month price target of $0.45 per share, a 200% premium over its recent price of $0.15 per share.

The Company is focused on developing products targeted at diagnosing and treating degenerative diseases stemming from nanobacterial infections that lead to pathological calcification. Nanobacterium is a slow-growing organism that has been found in human blood, arterial wall plaques, and kidney stones. Data has shown this infection to result in the formation of disease-causing calcified plaque in the circulatory system and vital organs, leading to such diseases as prostatitis, kidney stones, polycystic disease, and atherosclerosis.

The Company is currently offering one therapeutic product in the consumer market and has two other diagnostic products available to testing laboratories. Over time, the Company expects to expand its offerings to include other drugs, vaccines and next-generation molecular testing kits to diagnose and treat the detrimental effects of nanobacteria. We believe the key initial market opportunities for Nanobac Life Sciences exist in the areas of cardiovascular and urological disease. In total, including both therapeutic and diagnostic opportunities in both disease groups, we are conservatively estimating a current total U.S. market opportunity for the Company of over $2.3 billion, increasing to over $3.2 billion by 2010.

A true understanding of the role of nanobacteria in wide scale disease is still evolving. However, we believe the data has shown enough evidence that nanobacteria exists and does lead to diseases of pathological calcification to warrant attention. In turn, there is little question that Nanobac Life Sciences is the leader in the science of nanobacteria and at the forefront of a potential paradigm shift in the diagnosis and treatment of many diseases related to its presence. This process is likely to take time, but we believe risk-tolerant investors will ultimately be rewarded.

INVESTMENT HIGHLIGHTS

- Pathological calcification is responsible for approximately 25% of all chronic conditions. In total, statistics show that Americans currently spend over $500 billion per year to treat diseases of pathological calcification. We have chosen to limit the market opportunities in our report to cardiovascular and urological, totaling over $329 billion in expenditure per year in the U.S., although additional research may someday implicate nanobacteria in other diseases such as gall stones, diabetes, certain cancers, and neurodegenerative disease.

- The Company is currently selling a nutraceutical treatment cocktail for the eradication of nanobacteria and is preparing to introduce a GMP-manufactured, CE-marked product for diagnosing the presence of nanobacteria.

- As a result of a recent set of financing agreements led by the Nutmeg Group, the Company received cash of $570,000 during the three months ended September 30, 2004. The Company will also receive $625,000 in cash within five days of registering the common shares and warrants issued as a result of these agreements. We expect this to occur in Q1 of 2005. In the first nine months of 2004, Nanobac Life Sciences has experienced an average operating cash burn rate of approximately $850,000 per quarter and is expected to require additional capital in 2005.

- A recently-completed four month study measured the efficacy of the Company's therapeutic regimen in lowering calcified coronary artery plaque volume. The study showed that not only was the therapy well tolerated, but angina and lipid profiles improved, and a majority of patients saw a significant decrease in total coronary artery calcification (CAC) scores.

- The patent portfolio at Nanobac Life Sciences consists of two U.S. patents covering the culturing, detection and eradication of nanobacteria with several other patents pending. We believe the patent protection is currently solid, but will need to be bolstered as the commercial opportunities expand for this technology.

- The Company was co-founded by two leading scientists, Dr. Olavi Kajander and Dr. Neva Ciftcioglu, in the field of nanobacteria. In fact, these two world-renowned scientists are among the first to associate the existence of nanobacteria with the cascade of events inherent in pathological calcification.

- An independent study conducted at the Mayo Clinic in Rochester, Minnesota that validated earlier findings of the Company along with a collaborative research partnership signed with NASA in September 2004 lend credibility to the science of nanobacteria that, to date, has been met with some criticism in the scientific community.

- In 2005, as the sales and marketing effort expands and additional data drives the visibility of the science, we believe overall sales could increase significantly over 2004 levels to $4.6 million. Ultimately, we believe the Company will show positive earnings per share by 2007 and ramp up fully-taxed EPS to $0.13 by 2010. Using a discounted cash flow valuation methodology (see Figure 11, page 22), we derive a 12-month target price of $0.45 per share.

THE COMPANY

Nanobac Life Sciences, Inc. is focused on developing products targeted at diagnosing and treating degenerative diseases stemming from nanobacterial infections. Data has shown this infection to result in the formation of disease-causing calcified plaque in the circulatory system and vital organs, leading to such diseases as prostatitis, kidney stones, polycystic disease, and atherosclerosis. Nanobac has currently identified two biomarkers of nanobacterial infection, and intends to file for regulatory approval of its ELISA assays in the coming quarters.

By leveraging its proprietary knowledge and intellectual property, Nanobac Life Sciences intends to be the first to develop an FDA-approved therapeutic to treat nanobacterial infection, and currently markets a patented nanobiotic regimen that has been shown to significantly lower a user's coronary calcification scores. The Company also intends to begin aggressively selling its diagnostic product into the marketplace early next year.

A brief history of the Company is presented in Appendix 1.

RECENT KEY EVENTS

Financing Deal with the Nutmeg Group

As a result of the previously mentioned recent financing, the Company will issue common shares equal to the amount received divided by the lesser of $0.12, or 52% of the average closing bid price of the Company's common stock on the five trading days immediately prior to the date on which the registration statement is declared effective. In addition, the Company will issue warrants equal to the number of common shares in the deal. One half of the warrants are exercisable at 110% of the average closing bid price referenced above and the remaining half of the warrants are exercisable at 150% of this price. Unexercised warrants will expire on December 31, 2008.

Comment: *With approximately 185 million shares currently outstanding, we believe the Company will likely consider a reverse stock split to facilitate a move to the Nasdaq National Market. In addition, we believe the Company will likely need to conduct a larger capital raise in 2005 to provide the working capital necessary to continue important research initiatives and expand commercial sales operations.*

NASA Space Act Agreement

This agreement, announced on September 13th, allows Nanobac Life Sciences to collaborate with some of the country's top scientists and utilize high level facilities while, at the same time, providing NASA with the opportunity to leverage Nanobac's expertise in the field of nanobacteria in order to understand better the long-term effects of space travel on humans.

Comment: *We believe this agreement serves as a validation of the usefulness of the science and lends added credibility to the Company.*

Recent AHA Abstract Presentation

An abstract entitled "Increased serum levels of Nanobacteria antibodies are associated with high coronary calcification score" was presented at the American Heart Association (AHA) Scientific Sessions 2004 conference in New Orleans, LA in early November. The research was performed by Stephen Epstein, MD and Jianhui Zhu, PhD at the Washington Hospital Center in Washington, DC and showed that a Nanobac test detected the presence of antibodies to nanobacteria and demonstrated a statistically significant correlation (p=0.017) with high CAC scores (75th percentile) in asymptomatic patients.

Comment: *We believe the continued presence of this technology at important industry conferences such as AHA is necessary and vital to the long term success of Nanobac Life Sciences as the validation of the science will be required for wide scale adoption of the Company's product offerings.*

Manufacturing Agreement with Medicorp

On October 4th, Nanobac Life Sciences announced that it had signed a manufacturing agreement with Medicorp, Inc., an independent ISO 9001-certified manufacturer and distributor of immunodiagnostic and microbiology products. The agreement calls for the production of two blood tests for the detection of nanobacteria. Under the terms of the agreement, Medicorp will produce two diagnostic assays in preparation for FDA clinical trials and expanded distribution. Nanobac had previously manufactured the tests at its Nanobac Oy research laboratory in Kuopio, Finland.

THE SCIENCE OF NANOBACTERIA

It has been proposed that the origination of nanobacteria could go back billions of years when hot mineral springs dotted the earth's surface and provided a unique environment for the propagation of proteins and other genetic material. Eventually, the formation of membranes would lead to self-encapsulated cell structures. To regulate the passage of material through the cell's membrane, tiny bacteria may have formed on the membrane of the cell. Over time, these miniscule organisms may have used the abundance of calcium and phosphate in the hot mineral springs to form a protective apatite barrier that may have prevented its death during a drought or other severe environmental event.

Leap forward billions of years and the recent discovery of what has been labeled "nanobacteria" may actually represent the present day ancestor of those ancient organisms with an animal's blood serving as the necessary life source.

Of course, the scenario above is only a hypothesis and the true history of such an organism will likely never be known. However, through the early work of Drs. Olavi Kajander and Neva Ciftcioglu at the University of Kuopio in Finland, the science of nanobacteria is currently at the forefront of both modern medicine and geological study. In fact, the discovery of a unique bacterial structure in ancient rock actually predated the work done at the University of Kuopio by approximately 20 years. Dr. Robert Folk from the University of Texas originally questioned the existence of tiny

bacteria while studying travertine rock in Italy. Although Dr. Folk was ridiculed at first for his ground-breaking hypothesis that these bacteria represented the bulk of the earth's biomass, his work led to additional studies by other scientists.

In the mid 1990s, scientists at NASA as well as Drs. Kajander and Ciftcioglu were proposing convincing arguments for the existence of this new organism. In 1988, Dr. Kajander observed the formation of these nanobacteria during a routine mammalian cell culture experiment using commercially available fetal bovine serum. This represented the first isolation of living nanobacteria on record. In 1996, scientists at NASA suggested that a meteorite from Mars potentially contained a life form similar to that discovered by Dr. Folk. Criticism rained down, however, from a scientific community that had been conditioned to believe that no living organism could exist at the size demonstrated by these nanobacteria, ranging anywhere from 80 to 500 nanometers. Although the debate is still raging, additional studies from well respected centers of medicine such as the Mayo Clinic have verified the early work of Drs. Kajander and Ciftcioglu.

Nanobacterium is a slow growing bacterium that has been found in human blood, arterial wall plaques and kidney stones. Studies have shown that radiolabeled nanobacteria tend to accumulate in the kidneys, among other organs, and can be excreted in the urine. Below, we show a table that describes the common characteristics and behaviors of nanobacteria.

Figure 1: General Characteristics and Behavior of Nanobacteria

General Characteristics and Behavior of Nanobacteria

- The size of an individual nanobacterium ranges from 80 to 500 nm.
- Under low-nutrient conditions (e.g., serum-free), nanobacteria tend to form microscopic colonies in liquid media surrounded by a thick coat of calcium apatite; calcified colonies can approach 1 mm in size.
- They grow best under aerobic conditions: 5% carbon dioxide: 95% air.
- Tetracycline, an apatite-binding protein synthesis inhibitor, is the only class of those antibiotics tested to date that inhibits nanobacterial growth at therapeutically achievable blood levels.
- Calcium chelators, such as EDTA, inhibit growth in vitro.
- Some, but not all, isolates of nanobacteria show cytotoxicity to mammalian cells in vitro.
- While bacteria may double in minutes, nanobacteria appear to take up to years to double.
- Nanobacteria can bind to mammalian cells in vitro and be internalized by endocytosis.
- When injected into rabbits, nanobacteria localize to the kidney, where they cause apoptosis and sloughing of renal tubule epithelium.

Source: Ciftcioglu, Hjelle, Kajander, Miller-Hjelle

As studies began to show the prevalence of nanobacteria in human blood, questions arose as to the health implications that may result. The calcium apatite shells formed by nanobacteria are potentially harmful if allowed to propagate in the human body over time. One theory is that humans have possessed these nanobacteria for millions of years, perhaps dating back to the origination of man. Its slow growth, often taking fifty years or more to present a major health problem, may have allowed it to escape the pressures of evolution. Now, with technology providing the ability to

view the organism and life spans lengthening to the point where calcified plaque has the time necessary to present a major health risk, nanobacteria may finally be forced to defend itself against the onslaught of modern medical science.

We iterate that the mechanism of action by which apatite is formed around nanobacteria is not completely understood. It is theorized that nanobacteria form a biofilm which attracts calcium. In turn, nanobacteria tend to cluster and form calcified covers, almost in the form of igloos, which protect the organism inside from its harsh outer environment, including antibiotics and the human immune system. As these colonies grow in areas such as the kidneys and arteries, the presence of this calcified plaque can lead to a wide array of diseases of pathological calcification, as listed in Figure 2.

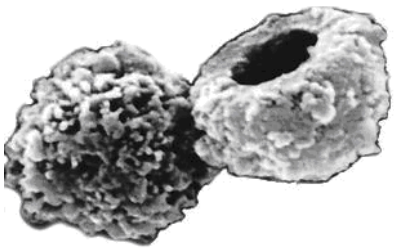
Figure 2: Diseases of Pathological Calcification

- ►**Atherosclerosis**
- ►**Chronic Prostatitis**
- ►**Arthritic Spurs**
- ►**Kidney Cysts**
- ►**Kidney Stones**
- ►**Polycystic Kidney Disease (PKD)**
- ►**Solid Tumor Pathologies**
- ►**Immunosuppressed Conditions**
- ►**Dental Pulp Stones**
- ►**Neurodegenerative Disease**
- ►**Scleroderma**
- ►**Gall Stones**
- ►**Diabetes**
- ►**Cataracts**

Source: Nanobac Life Sciences, Inc.

In other areas of the body, there is reason to believe that nanobacteria may some day be implicated in many other diseases, such as arthritis and ovarian cancer. In fact, a recent study at the Cleveland Clinic of Florida presented a strong case for the role of nanobacteria in the development of chronic prostatitis, a painful condition currently without an effective diagnostic or therapeutic solution that afflicts up to 50% of all men during their lifetimes.

Figure 3: View of Biogenic Apatite Shells Formed by Nanobacteria



Source: Kajander & Ciftcioglu, Nanobacteria: An alternative mechanism for pathogenic intra- and extracellular calcification.

Nanobac Life Sciences is currently working to develop data that shows the prevalence of nanobacteria. To date, a limited amount of information is known as to the widespread existence of the tiny organism in the human population. Below in Figure 4, we show a chart that summarizes the current data detailing the prevalence of nanobacteria in both healthy and diseased patients. As is evident, a much larger percentage of diseased patients tested positive for nanobacteria including every single patient with proven cardiovascular disease. We believe updated information from the Company will be made available in the coming months and will likely demonstrate that nanobacteria is existent in a much larger population of people than present with noticeable medical afflictions related to pathological calcification.

Comment: *In our view, this is consistent with the theory that nanobacteria, when present in the human body, take years to cause harm, but should nonetheless be at least monitored over time as the negative effects of its existence are likely to appear in the future.*

Figure 4: Prevalence of Nanobacteria in Humans

Disease	Nanobacteria Positive Serum
Normal Finnish Adults [1]	5%
Renal Patients [2]	50%
Cardiac Patients [3]	100%

[1] Kajander. 1999. Nanobacteria in health and disease. Proceedings of the first annual symposium Pleomorphic microbes in health and disease. held June 18-19, 1999. Hudson, Quebec; 43-48.
[2] Miller-Hjelle, et al. 2003. Nanobacteria antigen and antibody titers in USA controls compared to UK controls and kidney disease patients. 13th European Congress of Clinical Microbiology and Infectious Diseases. P1663.
[3] Maniscalco. 2004. Calcification in coronary artery disease can be reversed by edta - tetracycline long-term chemotherapy. In Press.
Source: See above

There have been numerous clinical studies that have been conducted on the heels of the pioneering work done by Drs. Kajander and Ciftcioglu that have confirmed the presence of nanobacteria and its potential for pathological calcification leading to disease in humans. Most importantly, a recent publication in a well-known journal summarized the work done by an independent team of scientists led by the Mayo Clinic that verifies the methodology for isolating, culturing, and staining nanobacteria. This article, entitled "Evidence of Nanobacterial-like structures in human calcified arteries and cardiac valves" appears in the May issue of the American Journal of Physiology - Heart and Circulatory Physiology and confirms that the nanobacteria can be visualized in, and cultured from, human calcified arteries and heart valves. The experiments also provided evidence of DNA within the nanobacteria, a finding that seems to defend the charge by some that nanobacteria are not living organisms.

BUSINESS STRATEGY

Nanobac Life Sciences is focused on the detection and treatment of diseases brought about by the presence of nanobacteria. The Company is currently offering one therapeutic product in the consumer market and should have two other diagnostic products available to testing laboratories in Q1 outside of the U.S. Over time, the Company expects to expand its offerings to include other drugs, vaccines, and next-generation molecular testing kits to diagnose and treat the detrimental effects of nanobacteria. In addition, Nanobac Life Sciences has targeted the bio-medical and bio-industrial markets as areas of future growth, as the presence of nanobacteria on or in such items as implantable stents, orthopedic implants, or IV fluids could represent a large secondary market opportunity for the Company. At this point, however, in an effort to be conservative we have chosen to leave this potential secondary market opportunity out of our financial forecasts.

The Company's current nutraceutical consumer product offering consists of a powder with various vitamins and extracts, and 1500 mg of a synthetic amino acid called ethylene diamine tetraacetic acid (EDTA) taken in the form of a rectal suppository. Nanobac Life Sciences is currently working to alter the delivery mechanism of the EDTA dosage and hopes to have an oral form ready for sale by the first half of next year, which we believe will significantly enhance patient compliance. We also believe the Company is working to slightly alter the cocktail of ingredients in the powder to improve the overall efficacy. As we noted earlier in the report, Dr. Maniscalco recently conducted a small four-month study to measure the efficacy of this powder and EDTA suppository in conjunction with 500 mg of tetracycline in lowering calcified coronary artery plaque volume.

Comment: *The study showed that not only was the therapy well tolerated, but angina and lipid profiles improved, as shown in Figure 5 below, and a majority of patients saw a significant decrease in total CAC scores. We believe this is significant as the typical patient with atherosclerosis experiences a 20-40% increase in CAC scores per year without treatment.*

Figure 5: Lipid Improvement as a Result of Using Therapeutic Regimen

Lipid Panel	Beginning Value +/- Standard Deviation	Ending Value +/- Standard Deviation	*p* Value
Total Cholesterol	188.6 +/- 47.4	164.5 +/- 33.8	0.001
Triglycerides	232.0 +/- 302.5	179.4 +/- 221.1	0.006
HDL Cholesterol	47.4 +/- 12.1	52.2 +/- 13.0	0.001
LDL Cholesterol	101.8 +/- 35.6	81.3 +/- 29.5	0.001

Source: Nanobac Life Sciences, Inc.

The marketing for this therapeutic began this past June in North America and the Company has experienced modest sales to date. The average selling price is estimated to be $200 for a one-month supply, and a patient is typically recommended to use the product for between four and six months, at a minimum. Nanobac Life Sciences is currently self-marketing the product, as shown in Figure 6 below, but is considering the use of outside partners to supplement its sales effort. No FDA approval is necessary given the current configuration of the product, but future versions of therapeutics offered by the Company may require regulatory consideration. The Company has a patent pending on the current regimen to eradicate nanobacteria.

Figure 6: Nanobac Life Sciences Therapeutic Product Offering

Source: Nanobac Life Sciences, Inc.

There has been much debate over the efficacy of chelation therapy and, in particular, the use of EDTA in treating atherosclerosis. Chelation therapy acts as a way for the body to rid itself of excess metals and minerals that may be toxic. It was originally used by the United States Navy to treat military personnel exposed to high quantities of lead. EDTA also binds to calcium, one of the components of atherosclerotic plaque and, apparently, a bi-product of nanobacteria. In theory, using EDTA to seek out and bind to calcium in combination with tetracycline, which has been shown to kill nanobacteria, should alleviate the existence of plaque in the arteries.

Comment: *In our view, however, a properly controlled clinical trial must be completed to confirm the safety of administering EDTA over an extended period of time as some experts believe it may be linked to kidney failure.*

Nanobac Life Sciences has also developed two blood tests to detect the presence and magnitude of nanobacterial infection. These tests, under the brand name NB2, test for nanobacterial antigen and antibodies and are available today outside of the U.S.A. and marketed through third party distributors. The Company announced positive results earlier this year from an epidemiological research study conducted by Dr. Stephen Epstein demonstrating the strong correlation between the presence of antibodies to nanobacteria and coronary artery calcification (CAC) in asymptomatic individuals.

Nanobac Life Sciences is currently working with regulatory experts to determine the appropriate regulatory pathway to allow for kit sales in the U.S.A. The Company has identified a contract research organization to design a pivotal clinical trial, and the manufacture of the kits is currently being conducted by Medicorp, a Canadian contract manufacturer.

Comment: *Although it is still uncertain at this time, we believe there is a good chance that the Company will be able to receive FDA approval for the kits through the filing of a 510(k), versus the much more time consuming process of filing a PMA.*

These diagnostic and therapeutic products are likely to be adjunctive with current procedures in the near term, but are likely to ultimately forge a new paradigm in detection and treatment methodologies for diseases associated with nanobacteria as more data is collected. In detecting the presence of nanobacteria, we believe the realistic goal is to have all adults over a certain age tested at their yearly physical. In addition, the Company is currently working to expand its diagnostic pipeline to include molecular diagnostics.

Comment: *With the costs of healthcare skyrocketing and next generation treatment methods becoming more and more costly, we believe the detection and ultimate eradication of nanobacteria to represent a cost effective method of managing diseases of enormous expense.*

MARKET OPPORTUNITY

The size of this market opportunity is immense. In fact, as is shown in Figure 7 detailing the costs associated with initial disease states targeted by Nanobac Life Sciences, the potential is essentially endless. We are limiting the market opportunities in our report to cardiovascular and urological, although additional research may someday implicate nanobacteria in other diseases such as gall stones, diabetes, certain cancers and neurodegenerative disease. In total, statistics show that Americans currently spend over $500 billion per year to treat all diseases of pathological calcification and over $329 billion per year on the four disease states shown below. It is clear that the costs associated with the assessment and treatment of coronary heart disease dwarf all others.

Figure 7: Costs Associated with Various Disease States

Disease State	Health Dollars Spent ($ millions)	Source
Coronary Heart Disease (CHD)	$325,000	AHA
Kidney Stones	$1,830	NIDDK
Polycystic Kidney Disease (PKD)	$1,000	NIDDK
Prostatitis	$1,330	NAMCS
Total	**$329,160**	

Source: AHA, NIDDK and NAMCS

Comment: *In our opinion, the size of the market will never be a constraint for Nanobac Life Sciences. Instead, the adoption of the scientific merits of the technology will need to increasingly take place over the coming years. The presence of nanobacteria and its underlying role in facilitating diseases of pathological calcification is a new theory. It is common for scientists and clinicians alike to remain skeptical until overwhelmingly proven otherwise. If and when the tide turns, however, and the data becomes irrefutable, this Company will be in a position to capture considerable market share.*

In fact, a perfect example of initial hesitation on the part of the medical community, followed by wide scale adoption, occurred in the 1980s when Dr. Barry Marshall discovered H. pylori and implicated it as the cause for up to 90% of all peptic ulcers. For nearly fifteen years following this breakthrough discovery, the medical community continued to utilize much riskier standards of practice in treating the disease when all that was needed was a simple oral medication to kill the bacteria. Finally, the U.S. Food and Drug Administration approved several combinations of antibiotic medications to treat the disease and now the treatment practice has shifted.

Therapeutic Market Opportunity in Treating Cardiovascular Disease

The U.S. Bureau of the Census estimates that the U.S. population will grow at a compound annual growth rate of 0.8% per year from 274 million in 2000 to 347 million in 2030. Over this same period of time, it is estimated that the number of people in the U.S. over the age of 65 will grow at a compound annual growth rate of 2.3% per year from approximately 35 million today to over 69 million in 2030. What these population projections imply is that the number of Americans over the age of 65 is expected to more than double over the next 30 years. Assuming that these projections are reasonably correct (they should be since it is almost impossible to disrupt demographic trends), this would mean that one in every five Americans will be over the age of 65 by the year 2030.

There is a strong relationship between aging and the incidence and prevalence of cardiovascular disease and adverse cardiovascular events. In fact, for those over the age of 75, the prevalence of cardiovascular disease is nearly 75%. These statistics clearly demonstrate the correlation between prevalence of cardiovascular disease and age. If we aggregate these and other statistics, it would show that about 57 million Americans have at least one form of cardiovascular disease. This represents roughly one-fifth of the U.S. population.

As shown in Figure 7 on the previous page, the American Heart Association estimates that the total economic burden placed upon society by cardiovascular disease (including stroke) is around $325 billion. Clearly, the economic burden of cardiovascular disease on the U.S. healthcare system is enormous. This is why both private and public institutions and organizations continue to spend significant financial resources to better understand the pathophysiology of this disease, or group of diseases. It is the hope of these institutions and organizations that their research will lead to medical and scientific breakthroughs that will save or prolong lives, lead to improved diagnostic and therapeutic approaches, and possibly even prevent the disease altogether.

Cardiovascular diseases represent 26.7% of all physician visits and 26.1% of all scripts in the U.S. However, over 50% of the people who die suddenly of cardiovascular disease present no noticeable symptoms. Current diagnostic tools to measure for the presence of disease include coronary angiographies, stress tests, and various imaging tools, including electron beam tomography (EBT). The EBT technology has recently grown in popularity and could serve as an excellent compliment to detecting the presence of nanobacteria in the arteries. EBT is a simple, non-invasive test costing less than $200 and taking less than 15 minutes to conduct. An EBT scan is required to determine an accurate coronary artery calcification (CAC) score which is directly related to the degree of calcification in a patient's arteries.

Comment: *We believe a greater usage of the EBT technology would act as a tremendous benefit to Nanobac Life Sciences. While an EBT scan may eventually be necessary to determine the magnitude and location of calcification in a patient's arteries, we could foresee the nanobacterial blood test from Nanobac Life Sciences eventually becoming the less expensive screening method to stratify patients into a group most apt to require the imaging test.*

In our model, we have chosen to target only patients with atherosclerosis as candidates for the Company's therapeutic regimen. While this may ultimately be conservative, we believe the initial marketing thrust will be towards patients with significant arterial plaque.

Comment: *Using a blended average estimate from several sources, we estimate the total number of Americans currently afflicted with atherosclerosis to be approximately 4.6 million. This represents a very sizable market for Nanobac.*

Market Opportunity in Treating Urological Disease

We are limiting the scope of opportunities for this technology within urological disease to polycystic kidney disease, prostatitis, and kidney stones. There is adequate reason to believe that nanobacterium plays a key role in each affliction. Over time, we expect that Nanobac Life Sciences, or others, will conduct detailed studies to validate this assumption. As such, we believe we are conservative to limit the market opportunity within the urological field to these three conditions, but realize that it will likely take years for these and others to fully take hold and, therefore, view additional diseases potentially brought on by the presence of nanobacteria as upside to our numbers.

Polycystic kidney disease is a disorder characterized by the formation of numerous cysts on the kidneys. These cysts are filled with fluid, expand the size of the kidneys considerably, and ultimately lead to kidney failure. It is estimated that approximately 500,000 Americans are afflicted with this condition. Although the disease probably begins in utero in most patients, symptoms are often not noted until the fourth or fifth decade which would be consistent with the slow growth nature of nanobacteria. PKD has no cure and the most common treatment methods focus on reducing pain. Ultimately, dialysis or kidney transplantation is often necessary to retain the functions of the kidneys.

Comment: *With approximately 500,000 victims of the disease and an estimated average treatment regimen consisting of five months of a daily therapeutic at an estimated cost of $200 per month, we estimate the market potential for treating polcystic kidney disease to represent approximately $500 million in the U.S. alone.*

Chronic prostatitis is a general way of describing the inflammation of the prostate gland. It accounts for as many as 25% of all urological doctor visits by young and middle aged men, and some statistics show that as many as 50% of men experience this disorder over the course of their lifetime. We estimate that there are approximately two million men experiencing chronic prostatitis in the U.S.A. today. Various medications are currently used to treat some cases while more severe cases of the condition may require surgery. Prostatitis is difficult to diagnose and, therefore,

difficult to treat. We believe that nanobacteria may play a key role and its detection and eventual eradication may provide a significant opportunity for Nanobac Life Sciences.

Comment: *With approximately two million victims of the disease, our assumption of five months of treatment at an estimated $200 per month would equate to a total U.S. market opportunity in the treatment only of prostatitis of $2 billion per year.*

Finally, kidney stones are formed from accumulated mineral deposits in the urine. These stones may break free and painfully travel down the urinary tract. Approximately 90% of kidney stones test positive for nanobacteria. That fact, coupled with the belief that nanobacterium produce calcium apatite over time and tend to accumulate in the urine, leads to our expectation that there is a strong and direct link between the presence of nanobacteria and the formation of kidney stones.

It is estimated that kidney stones may affect up to 10% of Americans in their lifetimes, and roughly 1.3 million people will suffer from this affliction this year. In the United States, 7 to 10 of every 1,000 hospital admissions are related to kidney stones, and the NIDDK estimates that approximately $1.8 billion per year is spent in the U.S.A. to treat the condition. With additional studies, we believe that Nanobac Life Sciences could implicate the presence of nanobacteria as a leading cause of stone formation and, in turn, change the treatment methodology as well as the diagnostic course of action for this painful disorder.

Comment: *Continuing with our assumption of five months of necessary treatment at an estimated $200 per month, our estimate of the market potential to Nanobac Life Sciences in treating this condition would be approximately $500 million. Combined, our assumption for the total market opportunity in treating the presence of nanobacteria in these three key urological conditions is over $6 billion per year in the U.S. alone.*

Market Opportunity for Diagnosing Disease

In our model, we have chosen to represent the annual diagnostic market opportunity as the total number of cholesterol tests performed in the U.S. We believe this currently totals approximately 35 million tests per year and we show this number growing by 5% per year through 2010. We are estimating the average selling price for the Company's diagnostic tests to be approximately $7.00 per test outside of the U.S. and $10.00 per test within the U.S. Although there is the potential for sales in the U.S. in 2005, we are choosing to be conservative in our model and, in turn, have shown an average selling price of $7.00 per test in 2005, increasing to $9.00 per test in 2006 and beyond in order to represent a blended average skewed to a higher quantity of sales in the U.S. Using these assumptions, our estimate for the total diagnostic market size is $245 million this year and growing to $422 million by 2010. We believe that Nanobac Life Sciences can capture 20% of this market opportunity by 2010, representing approximately $42.2 million in revenue to the Company after we account for a 50% risk premium reduction.

COMPETITIVE LANDSCAPE

Nanobac Life Sciences is a development-stage company operating on the cutting edge of a new paradigm in the treatment of diseases brought on by pathological calcification. We are unaware of any other companies developing diagnostic or therapeutic products pertaining to the existence of nanobacteria. However, as a pioneer, Nanobac Life Sciences is faced with the challenge of changing current clinical behavior.

Comment: *We believe the most challenging competitive forces that the Company will encounter going forward will be the necessity to change the existing treatment methods for patients with atherosclerosis and other diseases related to pathological calcification. In addition, the Company will be competing with researchers around the world that may be intrigued by the potential role of nanobacteria in treating disease and may now be searching for ways to tap into that potential.*

Longer term, the major pharmaceutical, diagnostic and nutraceutical companies could emerge as primary sources of competition. Market estimates show the leading cardiovascular therapeutics to total close to $18 billion in annual sales and yet the incidence of heart disease is growing. These companies have not addressed the infectious role of nanobacteria and would likely be required to partner with Nanobac Life Sciences to enter the market with a therapeutic drug designed to eradicate it.

Comment: *We believe it is imperative that the Company continues to build its intellectual property estate over the coming years as its competitive position should be greatly enhanced as a result. As the data connecting the presence of nanobacteria with the onset of pathological calcification continues to emerge, the expansive market opportunity is bound to attract competition quickly and the most applicable barrier to entry is likely to be strong patent coverage.*

INTELLECTUAL PROPERTY POSITION

Intellectual property is the cornerstone of this company. The patent portfolio at Nanobac Life Sciences consists of two U.S. patents covering the culturing, detection, and eradication of nanobacteria. Dr. Kajander has also patented the word "nanobacteria" and described it as the name for a very small mineral-associated bacteria-like life form. Other patents exist that reference nanobacteria and its eradication, but fail to define the organism. Furthermore, without a method of determining its existence, the patents are essentially worthless. Nanobac Life Sciences holds the only patent in existence that allows for the detection of nanobacteria. Without the ability to utilize the methods protected in this patent, it is impossible for another entrant to commercialize a product built around the treatment of nanobacteria.

The management team at Nanobac Life Sciences is working hard to supplement the current intellectual property portfolio and expects to file additional patent applications in the coming quarters. We believe the patent protection is currently solid, but will need to be bolstered as the commercial opportunities expand for this technology.

Below, we briefly describe the key points of the two patents owned by Nanobac Life Sciences.

1. United States Patent #5,135,851

Culture and detection method for sterile-filterable autonomously replicating biological particles.
Filed by: Dr. Kajander
Date Granted: August 4, 1992

Summary: This patent protects the methods of the culture, detection, purification, and elimination of nanobacteria, and describes the necessary reagents required.

2. United States Patent #6,706,290

Method for eradication of nanobacteria.
Filed by: Dr. Kajander, et al.
Date Granted: March 16, 2004

Summary: This patent protects various methods for sterilizing articles contaminated with nanobacteria, including the administration of an antibiotic, a bisphosphonate, or a calcium chelator, either alone or in combination, in an amount effective to inhibit or prevent the growth and development of nanobacteria. It also protects methods of treating patients infected with nanobacteria, in particular, a method for preventing the recurrence of kidney stones in a patient that has suffered from kidney stones.

MANAGEMENT TEAM

John Stanton - Chairman, Chief Executive Officer and Chief Financial Officer
From March, 2001 through to the present, Mr. Stanton has served as the Chairman of the Board and Chief Financial Officer of Nanobac Life Sciences. From March 2001 through January 2004, Mr. Stanton served as Chief Executive Officer of the Company and since July 2004 has again taken over that role. From 1987 through to the present, Mr. Stanton served as the President and Chief Executive Officer of Florida Engineered Construction Products Corporation. Mr. Stanton also serves as Chairman of the Board of publicly-traded EarthFirst Technologies, Inc. and MTS Medication Technologies, Inc. Since the early 1990s, Mr. Stanton has been, and continues to be, involved in turn-around management for financially distressed companies, providing both management guidance and financing.

Mr. Stanton worked as an auditor with the international professional services firm that is now known as Ernst & Young, LLP from 1973 through 1981. Mr. Stanton graduated from the University of South Florida with a Bachelors Degree in Marketing and Accounting in 1972, and with an MBA in 1973. He earned the designation of Certified Public Accountant in 1974 and is a lifetime resident of Tampa, Florida.

Brady Millican - Chief Operating Officer
Mr. Millican has served as Chief Operating Officer at Nanobac Life Sciences since January 2004. Previously, he served as Vice President of Business Development at

the Company from September 2003 through December 2003 and has over 12 years of leadership experience, with a comprehensive background in diagnostics infrastructure, clinical trial implementation and research development support.

From July 2001 until June 2003, Mr. Millican was Director of Business Development and Strategic projects at AmeriPath, a leading national provider of cancer diagnostics, genomics, and related information services. From January 1998 through July 2001, Mr. Millican worked at Pathology Service Associates in various leadership roles ranging from directing marketing activities to developing revenue enhancement audits. He also worked at Dianon Systems, Inc. from July 1991 through November 1997, in various sales and sales management roles, as well as field and corporate marketing.

Mr. Millican received his Bachelor of Arts Degree in Psychology from Washington and Lee University in 1983.

Grant D. Carlson - Vice President, Business Development
Grant D. Carlson brings over 15 years of industry experience to Nanobac Life Sciences, with extensive expertise in general management, corporate and business development, product development, product launch, and sales and marketing. Prior to joining Nanobac, Mr. Carlson was Vice President of Marketing and Business Development at Agilix Corporation, a functional genomics company developing gene expression and protein profiling technologies for biotechnology and pharmaceutical customers.

Prior to joining Agilix in 2001, Mr. Carlson served as Vice President of Marketing and Business Development for Dianon Systems, Inc., a leading national anatomic pathology and genomic diagnostic services company. Mr. Carlson was responsible for strategy and development for the company's pharmacogenomics and advanced diagnostics service businesses. During his 12 years at Dianon, Mr. Carlson held senior positions in marketing, business development, technology development and sales and led the launch of numerous advanced diagnostic products and biomarkers into clinical practice. He is co-inventor on five U.S. patents involving free-PSA and the diagnosis of prostate cancer. He has authored several scientific papers in the areas of oncology, urology, and diagnostic pathology.

Mr. Carlson holds a B.S. in Kinesiology from the University of California, Los Angeles.

E. Olavi Kajander, M.D., Ph.D. - Chief Research Officer, Nanobac Life Sciences
Dr. Kajander is the founder of Nanobac OY, a Finnish research and development company located in Kuopio, Finland, where, along with Dr. Neva Ciftcioglu, he documented and patented their discovery of nanobacteria. Following its buyout earlier this year, Nanobac OY is now a Finnish research subsidiary of Nanobac Life Sciences, Inc. He was also the founder of Abcell Corporation, a medical diagnostics company located in Finland.

In addition to being the director of scientific research at NanobacLabs Research Institute in Tampa, Dr. Kajander is also a full professor and director of research in the biochemistry department at the University of Kuopio (Kuopio, Finland). He has taught many courses at the university for more than 12 years.

Dr. Kajander was a Scripps Clinic & Resident Foundation post-doctoral research fellow in La Jolla, California and has authored more than 70 scientific research papers

and review articles, two letters and more than 50 scientific abstract publications as well as several invited editorials in scientific texts and journals. He has also been involved in the production of a number of videos and documentaries about his discovery of nanobacteria. He has two families of U.S. patents that are effective in many countries and another family of U.S. patents that are pending issue.

Neva Ciftcioglu, Ph.D. - Director of Science
Dr. Ciftcioglu is the co-discoverer and principal researcher of nanobacterium along with Dr. Olavi Kajander and is widely regarded as one of the world's leading experts in nanobacterial research. While her early work centered on general infectious diseases and bacterial pathogencity, her recent area of interest is in cell culture techniques, immunoassays and monoclonal antibodies, and nanobacterial pathogenicity.

She is a professor of biochemistry at the University of Kuopio in Kuopio, Finland and a senior scientist and director of nanobacterial research for the Universities Space Research Association at NASA Johnson Space Center in Houston, Texas. She also collaborates or directs nanobacterial research projects with Dr. Kajander at more than 100 sites. Dr. Ciftcioglu has authored or co-authored 46 scientific publications and 17 scientific abstract communications.

Dr. Ciftcioglu holds an undergraduate degree from Kocatepe Mimar Kemal Lisesi, in Ankara, Turkey along with both a master's degree and a doctorate degree in microbiology from the University of Ankara. She served as a post-doctoral research fellow in Dr. Kajander's research group at the University of Kuopio.

Michael Dean - VP Finance, Controller
Michael Dean has over 20 years of financial accounting experience, with the past 10 years spent as a senior finance executive in several public companies. Most recently, he was the senior financial officer for a successful $49 million IPO and helped to orchestrate the acquisition and integration of thirteen businesses with a cumulative value of over $250 million. Mr. Dean is a Certified Public Accountant and graduated with two Business of Arts degrees from the University of West Florida.

Board of Directors

John Stanton - (see previous)

Alex Edwards - Director
Alex Edwards served as the Chief Executive Officer of Nanobac Life Sciences from January 2004 through July 2004. From March 2003 through January 2004, Mr. Edwards served as the Chief Operating Officer of the Company. From January 1997 to May 2002, Mr. Edwards was an executive with SRI/Surgical Express, serving in roles that ranged from Vice President/General Manager to spending his last year with the company as President. From February 1993 through December 1997, he worked in Sales and Marketing with Dianon Systems, Inc. Mr. Edwards is a graduate of the United States Naval Academy.

Dr. Jan Egberts - Director
Dr. Egberts is currently the Chief Operating Officer at privately-held Dynogen Pharmaceutcals in Massachusetts. He has extensive line management, global marketing and mergers and acquisitions experience in the pharmaceutical and healthcare industry. Dr. Egberts has also held high level positions at various multinational medical companies such as Johnson & Johnson and Merck & Co. Dr. Egberts holds a medical degree from Erasmus University Medical School, Rotterdam and pursued his clinical training at Harvard Medical School. He also holds an MBA degree from the Stanford Graduate School of Business.

Dr. Stephan Rechtschaffen - Director
Dr. Rechtschaffen joined the Board of Directors on February 2, 2004. He co-founded Omega Institute, the nation's largest holistic education provider, in 1977 and is its present CEO and Chairman of the Board. Dr. Rechtschaffen received his medical degree in 1973 from New York Medical College in New York City.

Scientific Advisory Board

Benedict S. Maniscalco, M.D., F.A.C.C.

Hector Gomez, M.D., Ph.D.

Daniel A. Shoskes, M.D.

David Filer, Ph.D.

ANALYSIS: BALANCE SHEET

Table 8: Nanobac Life Sciences Balance Sheet (In Thousands of U.S. Dollars)

	2003A FY	2004E FY	2005E FY	2006E FY	2007E FY	2008E FY	2009E FY	2010E FY
ASSETS								
Current Assets								
Cash and cash equivalents	$50	$451	$4,244	$8,215	$10,917	$21,364	$34,893	$57,388
Accounts receivable	6	75	573	533	1,051	1,439	1,643	1,868
Inventory	16	37	459	711	1,617	2,877	3,066	3,114
Other current assets	15	6	6	6	6	6	6	6
Total Current Assets	87	569	5,282	9,466	13,591	25,686	39,608	62,376
Investment in Nanobac OY	0	0	0	0	0	0	0	0
Fixed Assets	174	152	352	852	1,852	2,852	3,852	4,852
Accumulated Depreciation	-38	0	0	0	0	0	0	0
Security Deposits	70	68	68	68	68	68	68	68
Total Intangible Assets	2,300	8,038	8,038	8,038	8,038	8,038	8,038	8,038
Accumulated Amortization	-163	-916	-1,716	-2,516	-3,316	-4,116	-4,916	-5,716
Goodwill	3,615	3,615	3,615	3,615	3,615	3,615	3,615	3,615
Total Assets	6,044	11,526	15,639	19,523	23,848	36,143	50,265	73,233
LIABILITIES AND SHAREHOLDERS' EQUITY								
Current Liabilities								
Accounts payable	753	1,857	1,413	1,486	1,792	1,971	1,567	1,336
Accrued Expenses	368	669	686	703	721	739	757	776
Other current liabilities	90	0	0	0	0	0	0	0
Total Current Liabilities	1,211	2,526	2,099	2,189	2,513	2,710	2,324	2,112
Stockholder Loans	5,640	0	0	0	0	0	0	0
Total Liabilities	6,850	2,526	2,099	2,189	2,513	2,710	2,324	2,112
Shareholders' Equity								
Common stock	4,034	22,385	29,214	34,214	34,214	34,214	34,214	34,214
Preferred Stock	350	0	0	0	0	0	0	0
Stock Subscription Receivable		-625	0	0	0	0	0	0
Accumulated Deficit	-5,175	-12,745	-15,659	-16,865	-12,864	-766	13,741	36,923
Comprehensive Loss - FX Rates	-16	-15	-15	-15	-15	-15	-15	-15
Total Shareholders' Equity	-807	9,000	13,540	17,334	21,335	33,433	47,940	71,122
Total Equities and Liabilities	$6,044	$11,526	$15,639	$19,523	$23,848	$36,143	$50,265	$73,233

Source: Company for historical, eResearch for projections

With cash of approximately $12,000 on hand at the end of the third quarter, adequate working capital is obviously a concern. The Company conducted a financing in Q3 that recently added $570,000 in cash to the balance sheet, but the financial flexibility of Nanobac is still limited. On the positive side, the Company is devoid of long-term debt and is likely to add approximately $625,000 in additional capital in Q1 2005 as part of the aforementioned financing.

To date, current liabilities have well outpaced current assets as cash levels have remained low and accounts receivable have been well below accounts payable. With a significant increase in revenue expected in 2005, combined with a capital infusion from an additional financing, we believe 2005 will represent an inflection point in the Company's current ratio. In 2005, we expect current assets to total $5.3 million, including cash of $4.2 million at year-end, as compared to total current liabilities of $2.1 million.

ANALYSIS: INCOME STATEMENT

Table 9: Nanobac Life Sciences Income Statement (In Thousands of U.S. Dollars)

Fiscal Year End December 31st	2003A FY	2004E FY	2005E FY	2006E FY	2007E FY	2008E FY	2009E FY	2010E FY
Total Revenues	484	374	4,587	7,111	16,171	28,773	43,801	62,277
Total Cost of Revenue	333	113	2,294	2,844	4,851	8,632	13,140	18,683
Gross Profit	151	261	2,294	4,267	11,319	20,141	30,661	43,594
Operating Expenses								
Sales, General & Administrative	2,127	4,792	2,064	2,133	2,426	2,877	3,066	3,114
Research & Development	540	1,951	2,294	2,489	4,043	4,316	3,285	2,180
Depreciation and Amortization	180	788	800	800	800	800	800	800
Total Operating Expenses	2,847	7,531	5,158	5,422	7,268	7,993	7,151	6,094
Profit (Loss) from Operations	-2,696	-7,270	-2,864	-1,156	4,051	12,148	23,510	37,501
Other Expenses (Income)	975	56	0	0	0	0	0	0
Interest Expense	24	249	50	50	50	50	50	50
Income Tax	0	0	0	0	0	$0	$8,953	$14,269
Net Income (Loss)	($3,695)	($7,575)	($2,914)	($1,206)	$4,001	$12,098	$14,507	$23,181
Weighted Average Shares Outstanding	81,616	156,978	225,100	229,100	229,100	229,100	229,100	229,100
Net Earnings (Loss) per Share	($0.05)	($0.05)	($0.01)	($0.01)	$0.02	$0.05	$0.06	$0.10

Source: Company for historical, eResearch for projections

Nanobac's income statement reveals a company with explosive revenue growth opportunities and a business model built on forging partnerships with third parties to minimize the initial cash burn. In the current year, we believe the Company should attain total revenues of $374,000 which assumes total Q4 revenues of $150,000. In 2005, as the sales and marketing effort expands and additional data drives the visibility of the science, we believe overall sales could increase over twelve-fold to $4.6 million. We foresee 2005 as a critical year for the Company, as key studies with the potential to further validate the science will likely take center stage, and the added emphasis on commercial sales will need to show results.

We expect gross margins in 2005 of 50%, increasing to 70% by 2010 as the Company is likely to benefit from economies of scale as quantities expand. The substitution of royalty payments for manufacturing costs will also likely diminish the cost of goods in future years. As the structure of future partnership agreements are difficult to forecast, we have chosen to show a steady progression in S,G&A expense over the near-term future assuming that the bulk of the sales effort is likely to be outsourced to a third-party partner. We have also forecast a steady expansion in R&D expenditures over the next several years as we believe the Company is dedicated to not only increasing the level of data that surrounds the science of nanobacteria, but also will seek out new therapeutics and molecular-based diagnostic kits to expand the total product offering.

Our net loss outlook for the current year is $0.05 per share which includes a net loss of $0.01 per share in the fiscal fourth quarter. In 2005, we believe the Company will trim its net loss to $0.01 per share as revenues increase significantly. We believe the Company will begin to show positive earnings per share in 2007 and ultimately ramp up fully-taxed EPS to $0.10 by 2010.

ANALYSIS: CASH FLOW STATEMENT

Figure 10: Nanobac Life Sciences Cash Flow Statement (In Thousands of U.S. Dollars)

	2003A FY	2004E FY	2005E FY	2006E FY	2007E FY	2008E FY	2009E FY	2010E FY
Operating Activities								
Net Income (loss)	($3,695)	($7,569)	($2,914)	($1,206)	$4,001	$12,098	$14,507	$23,181
Non-cash Items								
Depreciation and amortization	188	788	800	800	800	800	800	800
Common Stock for Services	780	2,563	0	0	0	0	0	0
Minority Interest	-4	0	0	0	0	0	0	0
Stockholder Interest	0	237	0	0	0	0	0	0
Changes in Accounts Receivable	9	-69	-499	40	-518	-388	-204	-226
Changes in Inventories	67	-21	-421	-252	-906	-1,260	-189	-48
Changes in Other Assets	78	9	0	0	0	0	0	0
Changes in Accounts Payable	279	1,583	-444	72	307	179	-404	-232
Changes in Accrued Expenses	146	98	17	17	18	18	18	19
Changes in Other Liabilities	0	263	0	0	0	0	0	0
Cash Flow from Operating Activities	-2,152	-2,118	-3,461	-528	3,702	11,447	14,529	23,495
Investing Activities								
Capital Expenditures	-18	-47	-200	-500	-1,000	-1,000	-1,000	-1,000
Acquisition of Subsidiaries	-81	-1	0	0	0	0	0	0
Exercise of Stock Option in Subsidiary	300	200	0	0	0	0	0	0
Security Deposits	-3	3	0	0	0	0	0	0
Cash Flow from Investing Activities	198	155	-200	-500	-1,000	-1,000	-1,000	-1,000
Financing Activities								
Line of Credit	-36	0						
Stockholder Loans	1,998	1,873						
Notes Payable/Other	-487	-43	0	0	0	0	0	0
Issuance of Common Stock	548	540	7,454	5,000	0	0	0	0
Cash Flow from Financing Activities	2,023	2,370	7,454	5,000	0	0	0	0
Exchange Rate	-16	-4	0	0	0	0	0	0
Increase (Decrease) in Cash for Period	50	403	3,793	3,972	2,702	10,447	13,529	22,495
Cash and Equivalents Beginning of Perio	0	50	451	4,244	8,215	10,917	21,364	34,893
Cash and Equivalents End of Period	$50	$451	$4,244	$8,215	$10,917	$21,364	$34,893	$57,388

Source: Company for historical, eResearch for projections

In the first nine months of 2004, Nanobac Life Sciences has experienced an average operating cash burn rate of approximately $850,000 per quarter. Capital expenditures have been minimal, although we expect a significant increase in capital expenditures in the current quarter as the Company uses resources to further its relationship with NASA. Although we expect capex to increase over the next several years, we do not view this as a capital-intensive business and would not expect capex to run much over $1 million in any given year.

We expect the Company to facilitate two capital raises over the coming two years, with each financing bringing in approximately $5 million in additional capital. In 2005, we are forecasting that the Company will conduct a $5 million capital raise by issuing approximately 20 million shares at $0.25 per share. In the following year, we expect a similar level raise, but at $1.25 per share leading to the issuance of four million shares. We also believe there is the potential for the Company to forge a partnership prior to raising capital in the financial markets that may provide the necessary funds to alleviate this need. However, there is little ability to predict the

timing and nature of such a partnership and, therefore, we have chosen to show the effects of a capital raise in our model and would make the necessary changes if the need arose.

VALUATION ANALYSIS

In order to conduct a proper discounted cash flow analysis, we estimated our terminal net income value of just over $24 million by multiplying our 2010 net income estimate by a perpetuity growth rate of 5%. We then applied a 10x multiple and discounted the resulting total to arrive at a present value. We used a discount rate of 25% to account for the relative risk inherent in the stock. We added this total to the present value of our estimated, combined free cash flows to arrive at an overall present value of the enterprise. We also added back the current level of cash at the Company and would have subtracted the long term debt if there had been any. Finally, we divided the sum of these discounted cash flows by the average number of shares which we estimate Nanobac Life Sciences will have outstanding at the end of 2005.

We also created a sensitivity analysis, shown in Figure 12, to derive the effects of different terminal value multiples and discount rates on our target price. Although we ultimately believe a 10x multiple and a 30% discount rate are appropriate, we understand the variability of these estimates and believe presenting a range of values is more appropriate than a single target price.

Using this methodology, we arrive at a 12-month target price of $0.45 per share.

Figure 11: Nanobac Life Sciences Discounted Free Cash Flow Calculation

	2004E	2005E	2006E	2007E	2008E	2009E	2010E
Total Revenue	374	4,587	7,111	16,171	28,773	43,801	62,277
Cash From Operating Activities	(2,118)	(3,461)	(528)	3,702	11,447	14,529	23,495
Less: Capital Expenditures	(44)	(200)	(500)	(1,000)	(1,000)	(1,000)	(1,000)
= Free Cash Flow to Equity	(2,162)	(3,661)	(1,028)	2,702	10,447	13,529	22,495

Source: eResearch

Figure 12: Target Price Sensitivity Analysis

Discount Rates		Terminal Value P/E Multiples 5.0x	10.0x	15.0x
	Present Value of Free Cash Flows	$13,530	$13,530	$13,530
	Present Value of December 31, 2010 Terminal Value*	40,393	80,786	121,179
	Present Value of Enterprise (Debt & Equity)	53,923	94,316	134,709
	% Value in Terminal Value	74.9%	85.7%	90.0%
20.0%				
	Less: Long Term Debt	$0	$0	$0
	Plus: Current Cash Position	12	12	12
	Equity Valuation as of December 14, 2004	53,935	94,328	134,721
	Equity Valuation Per Share	$0.36	$0.54	$0.72
	Present Value of Free Cash Flows	$10,137	$10,137	$10,137
	Present Value of December 31, 2010 Terminal Value*	31,554	63,109	94,663
	Present Value of Enterprise (Debt & Equity)	41,692	73,246	104,800
	% Value in Terminal Value	75.7%	86.2%	90.3%
25.0%				
	Less: Long Term Debt	$0	$0	$0
	Plus: Current Cash Position	12	12	12
	Equity Valuation as of December 14, 2004	41,704	73,258	104,812
	Equity Valuation Per Share	$0.31	**$0.45**	$0.59
	Present Value of Free Cash Flows	$7,512	$7,512	$7,512
	Present Value of December 31, 2010 Terminal Value*	24,890	49,779	74,669
	Present Value of Enterprise (Debt & Equity)	32,402	57,292	82,181
	% Value in Terminal Value	76.8%	86.9%	90.9%
30.0%				
	Less: Long Term Debt	$0	$0	$0
	Plus: Current Cash Position	12	12	12
	Equity Valuation as of December 14, 2004	32,414	57,304	82,193
	Equity Valuation Per Share	$0.27	$0.38	$0.49

Source: eResearch

STOCK PRICE CATALYSTS

- Additional data published in leading medical journals and presented at major trade conferences, both related to cardiovascular disease as well as to other types of disease.

- Development of an alternative delivery mechanism for the EDTA rectal suppository.

- Increasing diagnostic kit sales outside of the U.S. along with the initiation of clinical trials aimed at an approval in the U.S.

- Recent release of the highly anticipated book entitled "The Calcium Bomb" which discusses the role of pathological calcification in a wide range of diseases. Nanobac Life Sciences is prominently mentioned in the book and the book has currently being sold at Borders, Barnes & Noble, and Wal-Mart, among many others. The release occurred in early November.

- Recent transfer to the Nasdaq bulletin board from the Pink Sheets bringing increased visibility and opportunity for institutional ownership.

- Growth in sales of the Company's nutraceutical product currently on the market. Nanobac is selling the product both on-line and through a limited distribution network, but is also exploring the possibility of signing up additional distribution, and sales and marketing partners.

- The acceptance and granting of additional patents that are currently pending.

- Signing of additional partnerships, similar to the one signed with NASA that enhance and validate the indictment of nanobacteria in chronic conditions.

INVESTMENT RISKS

- A portion of the scientific community is still skeptical about either the existence of nanobacteria or its role in diseases of pathological calcification. Additional supporting data will need to be accumulated in order to continue the momentum of implicating nanobacteria in these various disease states.

- Operating losses have totaled millions of dollars to date and the Company has yet to generate meaningful revenue.

- Recent capital raise does not completely alleviate the financing risk. A shortfall in working capital will likely require a return to the capital markets for additional funding and, as a result, lead to further dilution to existing shareholders.

- Regulatory pathway is still somewhat unclear, and the eventual course of action will likely have a large impact on the ultimate commercial success or failure of the Company.

- The protection of the intellectual property estate is critical to the long-term success of the Company, but can not be taken for granted at this point.

- Increased adoption of the supplement regimen will likely be tied to the Company's ability to develop an alternative delivery method for the EDTA suppository, now delivered rectally.

- The outlook for eventual reimbursement coverage of the Company's product lines is unclear at this time.

- The continued development of the business strategy is dependent upon key management team members, particularly the unique expertise of Drs. Kajander and Ciftcioglu.

- Although the stock recently made the transition from the pink sheets to the bulletin boards, liquidity remains an issue, as does the potential for a reverse stock split sometime in 2005.

INVESTMENT CONCLUSION

Although we admit that this science is still evolving, we believe the data has shown enough evidence that nanobacteria exists and leads to diseases of pathological calcification. In turn, there is little question that Nanobac Life Sciences is the leader in the science of nanobacteria, and at the forefront of a potential paradigm shift in the diagnosis and treatment of many diseases related to its presence. This process is likely to take time, but we believe risk-tolerant investors will ultimately be rewarded. As such, we are assigning shares of Nanobac Life Sciences our Speculative Buy Rating with a 12-month price target of $0.45 per share, a 200% premium over its recent price of $0.15 per share.

APPENDIX 1: BRIEF HISTORY OF NANOBAC

Below, we have listed the key events to date in the history of Nanobac Life Sciences.

Figure 13: Brief History Of Nanobac

December 2002	Acquired HealthCentrics, Inc. (using reverse merger accounting)
June 2003	Acquired majority interest in NanobacLabs Pharmaceuticals, Inc.
June - July 2003	Changed name to Nanobac Pharmaceuticals, Inc. and changed trading symbol to NNBP
July - December 2003	Acquisition of minority shareholders in NanobacLabs Pharmaceuticals, Inc.
November 2003	Acquired majority interest in Nanobac OY
January - March 2004	Acquisition of minority shareholders of Nanobac OY
January/March 2004	Signed Drs. Kajander and Ciftcioglu to long term employment agreements
March 2004	Disposition of HealthCentrics to affiliates of Chairman and CEO
April 2004	Announced positive results from an epidemiological research study demonstrating the strong correlation between the presence of antibodies to nanobacteria and coronary artery
April 2004	Changed name from Nanobac Pharmaceuticals to Nanobac Life Sciences, Inc.
July 2004	Announced the publication of an important study conducted by Dr. Maniscalco
September 2004	Announced Space Act Agreement with NASA
October 2004	Announced completion of PIPE financing led by Nutmeg Securities

Source: Company Reports, eResearch

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.

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eResearch Recommendation System

Buy:	Expected total return within the next 12 months is at least 20%
Speculative Buy:	Expected total return within the next 12 months is at least 40%. Risk is High (see below)
Hold:	Expected total return within the next 12 months is between 20% and the T-Bill rate
Sell:	Expected total return within the next 12 months is less than the T-Bill rate

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:	Financial - Little or no revenue and earnings, limited financial history, weak balance sheet, negative free cash flows, poor working capital solvency, no dividends. Operational - Weak competitive market position, high cost structure, industry consolidating, business model/technology unproven or out-of-date.
Medium Risk:	Financial - 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. Operational - Competitive market position and cost structure, industry stable, business model/technology is well established and consistent with current state of industry
Low Risk:	Financial - 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. Operational - 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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