



Business Overview
February 2007

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1. Opportunity
2. Markets
3. Technology/IP
4. Summary
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- Criteria
 - Replacement for petroleum oil
 - Alternative to oil seed crops
 - Environmentally friendly
 - Profitable

- XL TechGroup analyzed all major candidate technologies
 - 18 months
 - Universities, national laboratories, corporate R&D
 - Ethanol (corn and cellulosic), Hydrogen, Fuel Cells, etc.

***Conclusion: Algae-based oil is the
only viable solution***

What is PetroAlgae?

- PetroAlgae LLC is a subsidiary of XL TechGroup, Inc.
- Commercializing patentable strains of common micro-algae, created by 15 years of directed selection at Arizona State University
 - Matures in 24 hours
 - Converts 50% of weight to usable oil (similar to rapeseed, soybean, & other vegetable oils)
 - Harvested daily
 - Proprietary cultivation system is modular and rapidly scaleable

Advantages over other solutions

- Low cost
- High efficiency
- Profitable without subsidies
- Not limited by available land unlike other biofuel solutions

PetroAlgae has the potential to reduce reliance on imported oil significantly

The low-cost feedstock oil solution

Biodiesel feedstock oil cost comparisons:

Raw Oil	<u>Rapeseed</u>	<u>Soybean</u>	<u>PetroAlgae*</u>
\$/lb**	\$0.39	\$0.29	\$0.22
\$/lb w/Freight***	\$0.45	\$0.35	\$0.23
Raw Oil \$/Gallon	\$3.38	\$2.63	\$1.73
Conversion Cost	\$0.52	\$0.52	\$0.52
	=====	=====	=====
Biodiesel Cost	\$ 3.90	\$3.15	\$2.25
(Excise Tax)	- 1.00	- 1.00	- 1.00
	=====	=====	=====
Net Cost	\$ 2.90	\$2.15	\$ 1.25

- **Low Sulfur #2 Petroleum Diesel Rack Price = \$1.63 - \$1.93**
- **PetroAlgae Biodiesel Rack discount to Petro Diesel = \$0.38 - \$0.68**

* PetroAlgae estimates, January 2007

** CBOT/Futures, January 24, 2007.

*** Assumes \$0.06 inbound freight avg. and \$0.01 co-location freight for PetroAlgae

PetroAlgae's feedstock oil cost advantage makes biodiesel price-competitive with petroleum diesel

Algae oil is the only feedstock that can meet large-scale commercial demand

Requirements to produce 80 million gal/yr (400 million @ B20):

Price	<u>Rapeseed</u>	<u>Soybean</u>	<u>PetroAlgae</u>
\$/lb	\$0.37	\$0.28	\$0.22
\$/gal	\$2.85	\$2.16	\$1.69

Land Needed			
Oil Yield Gal/Acre	120	50	14,000
Acres Needed	666,667	1,600,000	5,714

Water Needed			
Acre-inches	18	20	NA
Gal/Acre	488,743	543,048	512,000
Total Gallons	326 billion	869 billion	3 billion
Water/Oil Ratio	4,073	10,861	37

Capital Needed			
\$/Acre	NA	NA	\$32,000
Total \$ Needed			\$183 million

Observations:

- Seed crops are impractically land and water intensive
- PetroAlgae recycles 99% of water used for cultivation
- Entire US demand of 60 billion gallons could be replaced with B100 biodiesel grown on 4 million acres of algae production (2% of current US cultivated acreage)

Key Metrics

- Produces 200x more oil/acre/yr than soybeans
- \$150 billion US market for diesel fuel and home heating oil
- Entire US demand for diesel fuel and heating oil could be met using less than 2% of the land currently under cultivation

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- Markets (US only)

- Diesel fuel / heating oil \$ 150B / year
- Power plant co-firing \$ 2B / year
- TAGS (Fatty Acids) \$ 2B / year
- Other \$ 2B / year

Global demand is large and growing

Worldwide Market for Vegetable Oils – August 2005/06

<u>Oil Type</u>	<u>Volume (000's mt)</u>	<u>Price (\$/mt)</u>	<u>Market Size (\$ Billions)</u>	<u>Conversion (lbs/gal)</u>	<u>Gallons (billions)</u>	<u>Price (\$/gal)</u>	<u>Price (\$/lb)</u>
Soybean	34,110	546	18.62	7.7	9.76	1.90	0.25
Palm ¹	35,370	415	14.67	7.7	10.12	1.44	0.18
Rapeseed/Canola ²	17,070	822	14.03	7.7	4.88	2.87	0.37
Sunflower	10,110	889	8.98	7.7	2.89	3.10	0.40
Peanut	5,180	965	4.99	7.7	1.48	3.37	0.44
Cottonseed	4,560	601	2.74	7.7	1.30	2.09	0.27
Palm Kernel	4,310	560	2.41	7.5	1.26	1.98	0.25
Coconut ²	3,540	575	2.03	7.6	1.02	1.98	0.26
Corn	2,600	575	1.50	7.7	.74	2.01	0.26
Total	116,850	660	70.01		33.49	2.30	0.30

- 1 FOB Malaysia
- 2 FOB Rotterdam

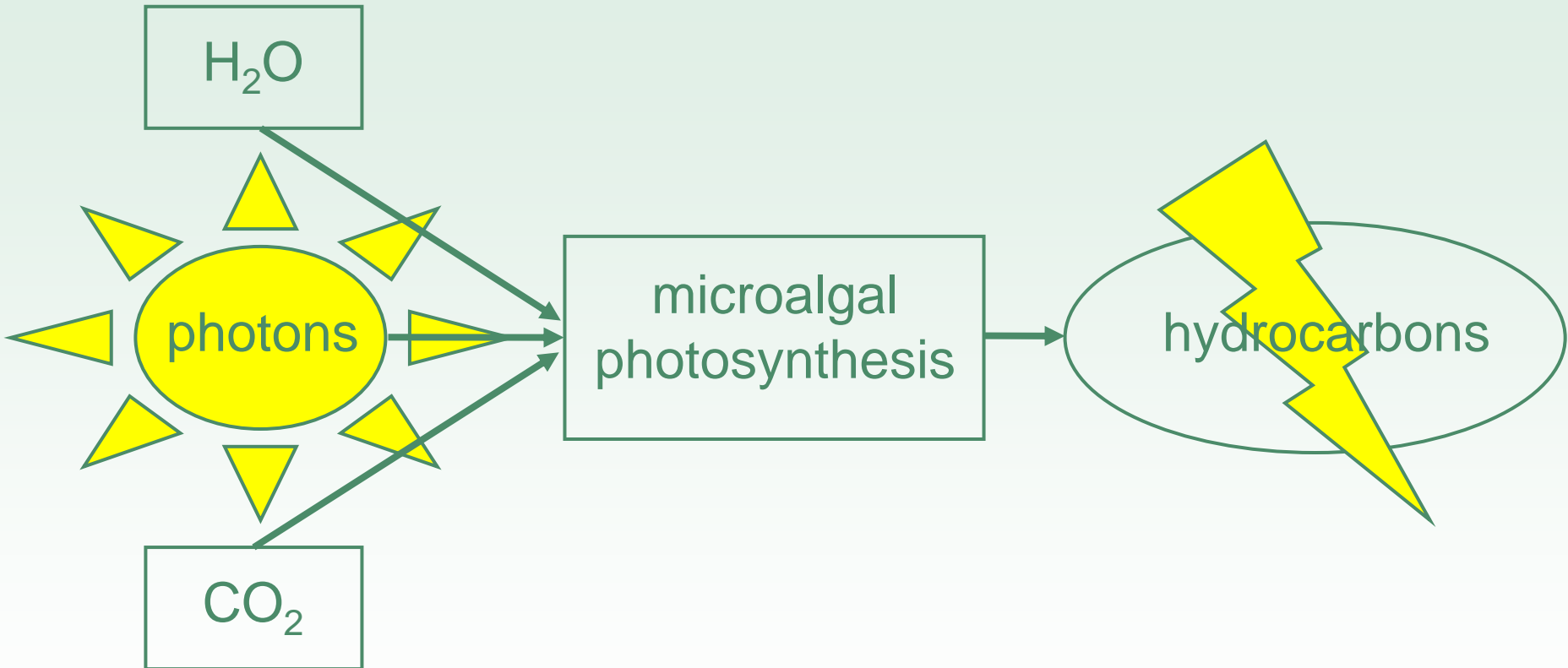
- Total oil demand growing by over 6 million mt per year
- Prices for top 3 oils up 12-20% in 1H06

- Produce oils that reduce feedstock costs:
 - Biodiesel & transportation fuel
 - Heating oil
 - Plastic resins
 - Biodegradable
 - Non-biodegradable
 - Power plant fuel
 - Petrochemicals

- Produce commodity oils that eliminate processing steps for:
 - Detergents
 - Nutraceuticals
 - Foods
 - Cosmetics
 - Medical grade pigments

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A renewable energy supply



200x yield improvement over soybeans

- Selected algae strain
 - Cell population doubles every 24 hours
 - Highest known percentage of oil to body weight (50%)
 - Over 15 years of directed selection for:
 - Fatty acid production (500 mg/l per day)
 - Increased size
 - Expanded environmental tolerance

- Genetic modifications (in development)
 - Custom oils – to displace commodity oils
 - Competitive with commodity prices
 - Eliminate complex post-processing steps

- Proprietary bioreactors
 - Modular
 - Straight forward scale up methodology
 - Operationally simple
 - Continuous operation
 - Daily harvest

No critical US legal or regulatory issues

- Identified non-critical areas
 - Aquaculture requirements
 - Water use restrictions
 - Food regulations
 - Cosmetic regulations
 - Genetically modified material (not applicable to current organism)

- Co-benefits and additional revenue opportunities
 - CO₂ credits
 - Biomass fuel for power generation
 - Fertilizer
 - Animal Feed
 - Water remediation & water quality credits
 - SO_x & NO_x credits
 - Biodiesel subsidies

- Currently operating a 4-acre R&D site near Melbourne, FL
- Current focus: validate lab results in the field
 - Oil yield – current estimate 14,000 gallons/acre/year
 - Production asset requirements – current estimate \$32,000/acre
- Next priority: continuous improvement R&D
 - Yield optimization under varying climate conditions
 - Statistical process control parameters
 - Process cost optimization

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Markets

- Massive volume
- Multiple applications
- Early partnering opportunities

Technical/IP

- Differentiated
- Defendable
- Scaleable

Financial

- High margins
- Rapid growth

Eco-Friendly

- Sustainable
- Renewable
- Carbon Neutral

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■ CEO

Michael Nadolny is the Chief Executive Officer for PetroAlgae. Prior to joining XLTG, Mike split his career between entrepreneurial management and strategy consulting. As an entrepreneur, Mike founded companies in digital electronics and wireless services. As a consultant, he focused on strategy and value based management issues. Mike has S.B. degrees from M.I.T. in Mechanical Engineering and Political Science, and an MBA from Harvard Business School.

■ COO

Jim McCreary is the Chief Operating Officer for PetroAlgae. Before joining XLTG, Jim was the founding CEO, CFO, or CTO of over a dozen different new venture companies, most recently in software, telecommunications, and medical devices. Jim also has worked extensively as a strategy and innovation management consultant, leading projects which have created over \$30 billion of measured cash-flow value for Fortune 500 companies. Jim has a BA with Honors in Economics from Yale, and an MBA with Distinction from the Harvard Business School.

■ CTO

Gary Alianell, PhD, is a senior executive with 25 years experience in technology and technology management. Dr. Alianell is a recognized leader in the fields of algae, their genetics and aquaculture. He has gained broad based experience by holding in senior life sciences executive positions over the past three decades including positions with Beckman Instruments, SmithKline Beckman and Qualicon-DuPont. Dr. Alianell has been President, CEO or COO of three early stage life science companies, highlighting the use of algae, other micro-organisms and their cellular products. Dr. Alianell has led companies through the IPO process, acquisitions and multiple rounds of venture capital fundraising. Furthermore, he has experience in IP licensing (technology transfer), grant and contract structuring, strategic planning as well as GLP, GMP, ISO and FDA experience. Dr. Alianell earned a B.S. in Biochemistry a M.S. in Cell Biology, a Ph.D. in Molecular Genetics as well as post-doctoral positions in Biophysics and Enzymology.

■ CFO

David Szostak, a Certified Public Accountant, began his career in Illinois working as an auditor for mid to large size accountancy firms. He then moved to Extel, Inc. in Chicago as Corporate Controller. When Extel acquired Hetra Computer, Inc. in 1990, he relocated to Florida and accepted the position of Vice President and Chief Financial Officer of Hetra. In 1993, when Hetra was acquired by XL Vision, he continued in the same position with XL. David earned his Bachelor of Science in Finance at Southern Illinois University, with graduate studies at DePaul University.