# ALGAE BIOSCIENCES CORPORATION

**ANNUAL INFORMATION FORM**

**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**March 27, 2012**

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## GLOSSARY OF TERMS

In this Annual Information Form, the capitalized terms set forth below have the following meanings:

"**ABCA**" means the *Business Corporations Act* (Alberta) and the regulations thereunder, as amended;

"**Agency Agreement**" means the agency agreement dated effective October 7, 2010, between the Corporation, Algae Nevada, and Macquarie Private Wealth Inc., relating to the Prospectus Offering;

"**ABI**" means Algae Biosciences Inc. (formerly Triwood Capital Corp.), a Delaware corporation and wholly-owned subsidiary of the Corporation;

"**Algae Nevada**" means Algae Biosciences Corporation (Nevada), a Nevada corporation which amalgamated with ABI pursuant to the Merger Transaction;

"**Algae Nevada Shares**" means shares in the common stock of Algae Nevada prior to the Merger Transaction;

"**Annual Information Form**" means this annual information form of AlgaeBio dated March 27, 2012;

"**Board of Directors**" means the board of directors of the Corporation, as constituted from time to time;

"**BioMax Program**" means AlgaeBio's proprietary system of producing and delivering bio-fertilizer for agricultural crop and land enhancement, formerly known as "CAPS";

"**Coconino Aquifer**" means the aquifer located in north-central Arizona which overlies the Redwall-Muav aquifer and consists of hydraulically connected sandstones, limestones, and shales;

"**Common Shares**" means common shares in the capital of the Corporation as presently constituted;

"**Corporation**" or "**AlgaeBio**" means Algae Biosciences Corporation, a corporation incorporated under the laws of Alberta and includes, except where the context otherwise requires, the Corporation's subsidiaries;

"**DHA**" means the Omega-3 fatty acid known as docosahexaenoic acid;

"**EPA**" means the Omega-3 fatty acid known as eicosapentaenoic acid;

"**FDA**" means the U.S. Food and Drug Administration;

"**GRAS**" means the "**Generally Recognized as Safe**" certification under the U.S. Food, Drug, and Cosmetic Act;

"**GHT**" means Global Health Trax, Inc., a corporation with an office in Vista, California;

"**Gross Margin**" means, for purposes of the License Agreement, gross margin as defined under IFRS, as consistently applied, resulting from the production and sale of products derived from cultures of the specific algae that are licensed for use;

"**IFRS**" means, International Financial Reporting Standards as issued by the International Accounting Standards Board and as set out in the Handbook of the Canadian Institute of Chartered Accountants;

"**International IP**" means International IP Holdings, LLC, a Nevada limited liability company that owns the Licensed Intellectual Property;

"**IPO**" means the initial public offering of the Corporation completed on August 29, 2008 pursuant to a Capital Pool Company prospectus filed in the Provinces of Alberta, British Columbia, and Saskatchewan, in connection with the issuance of 1,500,000 Common Shares at a per share price of $0.20 for gross proceeds of $300,000;

"**IPO Escrow Agreement**" means the escrow agreement dated May 26, 2008, among the Corporation, Valiant as depositary, and the founding shareholders of the Corporation;

"**IRS**" means the Internal Revenue Service, the U.S. agency tasked with administering the U.S. Internal Revenue Code of 1986, as amended;

"**License Agreement**" means that certain License Agreement dated November 29, 2010, between International IP and AlgaeBio, as amended by that certain First Amendment to License Agreement dated February 4, 2011;

"**Licensed Intellectual Property**" means an array of specific algae strains and related media formulations and specialty bioreactor designs used to advance the efficacy of such algae strains. See "*Description of Business – General*" and "*Material Agreements – Description of License Agreement*";

"**Merger Agreement**" means the agreement and plan of merger dated January 28, 2011, between the Corporation, Algae Nevada and ABI, as amended February 1, 2011, February 11, 2011 and March 8, 2011;

"**Merger Transaction**" means the transactions contemplated pursuant to the Merger Agreement which closed on April 13, 2011 and constituted the Qualifying Transaction of the Corporation;

"**NEX**" means a separate board of TSX-V which is known as the "NEX";

"**NI 51-102**" means National Instrument 51-102 – *Continuous Disclosure Obligations* of the Canadian Securities Administrators;

"**Patent**" means U.S. Patent No. 6,986,323, which is the exclusive use patent obtained by AlgaeBio on January 17, 2006 for "Inland Aquaculture of Marine Life Using Water From a Saline Aquifer";

"**Preferred Shares**" means the preferred shares in the capital of the Corporation;

"**Private Placement**" means the private offering of units conducted by the Corporation under the terms and conditions of a confidential limited offering memorandum dated October 11, 2010, as amended by the First Supplement to Confidential Limited Offering Memorandum dated January 19, 2011;

"**Prospectus Offering**" means the public offering of 27,750,000 Common Shares at a price of $0.20 per Common Share for aggregate gross proceeds of $5,750,000 pursuant to a long form prospectus dated March 29, 2011, which closed concurrently with the Merger Transaction;

"**Purchase and Distribution Agreement**" means the purchase and distribution agreement dated October 8, 2010 between the Algae Nevada and GHT;

"**Qualifying Transaction**" has the meaning ascribed thereto in the TSX-V Policies;

"**Technical Services Agreement**" means the technical services agreement dated July 1, 2010 between Algae Nevada and an international food grower and processor;

"**TSX-V**" means the TSX Venture Exchange;

"**TSX-V Policies**" means the TSX-V corporate finance manual, as amended from time to time;

"**United States**" or "**U.S.**" means the United States of America, its territories and possessions, any state of the United States and the District of Columbia;

"**U.S. GAAP**" means generally accepted accounting principles in the U.S.; and

"**Valiant**" means Valiant Trust Company.

## SPECIAL NOTES TO THE READER

### Presentation of Information and Currency

The information contained in this Annual Information Form is presented as at September 30, 2011 unless otherwise noted.

In this Annual Information Form, references to "$" and "Canadian dollars" are to Canadian dollars and references to "US$" and "U.S. dollars" are to United States dollars. Amounts are stated in Canadian dollars unless otherwise indicated.

## FORWARD LOOKING STATEMENTS

### Cautionary Note Regarding Forward-Looking Statements

Certain statements contained in this Annual Information Form constitute forward-looking statements. These statements relate to future events or the Corporation's future performance. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "should", "believe", "predict" and "potential" and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. No assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this Annual Information Form should not be unduly relied upon. These statements speak only as of the date of this Annual Information Form. In addition, this Annual Information Form may contain forward-looking statements and forward-looking information attributed to third party industry sources.

In particular, this Annual Information Form contains forward-looking statements pertaining to the following:

- business strategy, strength, and focus;
- algae quality and production levels;
- productive capacity of production facilities, anticipated or expected production rates, anticipated dates of commencement of production and estimated shipment values;
- projections of market prices, costs, and differentials;
- supply and demand for algae products;
- expectations regarding the ability to raise capital and to continually add to production capacity;
- treatment under governmental regulatory regimes and tax laws and the impact on the Corporation's activities;
- expectation regarding the Corporation's competitive position;
- tax horizon and future income taxes;
- treatment under governmental regulatory regimes and tax laws;
- expectations about future income taxes;
- expectations about the Corporation's future working capital position;

- capital expenditure programs and the timing and funding thereof;
- expectations about the performance of equipment and technology;
- expected levels of operating costs, general and administrative costs, and other costs and expenses;
- ability to successfully complete the commercialization and cost optimization of the Corporation's products;
- successfully managing production costs and yield associated with increased production of Corporation's products;
- completion of the Corporation's efforts to successfully acquire real property and property rights necessary for its current and future needs;
- environmental challenges related to favourable algae production;
- progress of the Corporation's research and development programs for developing other products extracted from microalgae and macroalgae;
- time and costs associated with obtaining any existing or future regulatory approvals for the Corporation's products;
- the Corporation's ability to protect its patent(s) and other proprietary rights;
- costs of filing, protecting, and enforcing the Corporation's patent(s) and other proprietary claims;
- competing technological and market developments;
- costs of commercializing and marketing the Corporation's initial and potential products;
- the Corporation's efforts to successfully market its products as scheduled;
- ability to attract, build, and maintain a customer base;
- changes in the Corporation's pricing policies or the pricing policies of the Corporation's competitors;
- the Corporation's capability to attract, hire, contract, and retain quality employees and consultants; and
- effects of changing regional, national, and international economic conditions on the business of the Corporation.

With respect to forward-looking statements and forward-looking information contained in this Annual Information Form, assumptions have been made regarding, among other things:

- the Corporation's ability to obtain and retain qualified staff and equipment in a timely and cost-efficient manner;
- future capital expenditures to be made by the Corporation;
- future sources of funding for the Corporation's business activities and future growth;

- the Corporation's future debt levels;
- the impact of increasing competition on the Corporation; and
- the Corporation's ability to obtain financing on acceptable terms.

Actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors outlined below and included elsewhere in this Annual Information Form, including:

- general economic conditions in Canada, U.S., and globally;
- industry conditions, including fluctuations in the price of algae;
- competition for, among other things, capital and skilled personnel;
- governmental regulation, including environmental regulation;
- fluctuations in interest rates and stock market volatility;
- the availability of capital on acceptable terms;
- the need to obtain required approvals from regulatory authorities;
- changes to income tax laws or changes in tax laws and incentive programs relating to the bio-technology industry; and
- the other factors discussed under *"Risk Factors"* in this Annual Information Form.

The forward-looking statements included in this Annual Information Form are expressly qualified by this cautionary statement and are made as of the date of this Annual Information Form. The Corporation does not undertake any obligation to publicly update or revise any forward-looking statements except as required by applicable securities laws.

## CORPORATE STRUCTURE

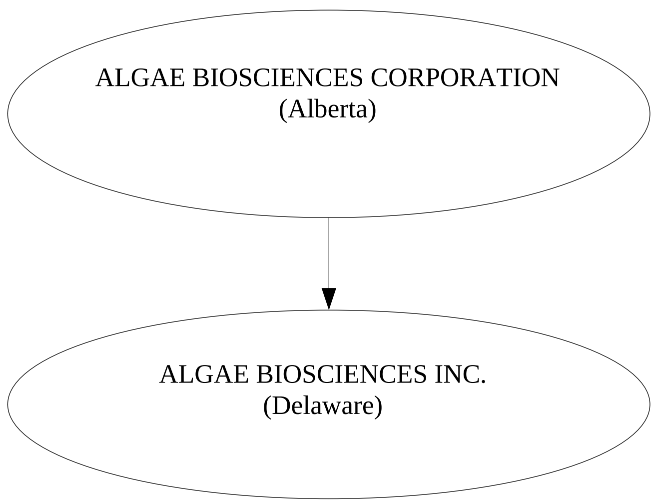
### Name, Address and Incorporation

AlgaeBio was incorporated as "Triwood Capital Corp." under the ABCA on January 3, 2008. On April 7, 2008, the Corporation amended its articles to remove the restrictions on share transfers. On April 15, 2011, the Corporation amended its articles to change its name to "Algae Biosciences Corporation".

The Corporation's registered office is located at Suite 1900, 520 – 3rd Avenue S.W., Calgary, Alberta T2P 0R3. The Corporation's head office is located at 11445 E. Via Linda Ste 2 #456, Scottsdale, Arizona, 85259.

### Intercorporate Relationships

The Corporation has one wholly owned subsidiary, ABI. The corporate ownership structure of the Corporation and ABI is set forth in the diagram below. The jurisdiction of incorporation of each of the Corporation and ABI are indicated below their names:




## GENERAL DEVELOPMENT OF THE BUSINESS

### History of the Corporation

***Incorporation to Completion of Merger Transaction***

*Capital Pool Company*

The Corporation was incorporated in January 2008 under the name "Triwood Capital Corp.". On August 29, 2008, the Corporation completed its Capital Pool Company initial public offering of and issued 1,500,000 Common Shares at a price of $0.20 per share, for gross proceeds of $300,000, which amount was raised to provide the Corporation with funds with which to identify and evaluate businesses or assets with a view towards completing a Qualifying Transaction. Pursuant to TSX-V Policies, the TSX-V set a final deadline of December 13, 2010 for the Corporation to complete a Qualifying Transaction, transfer to NEX or be delisted from the TSX-V. The Corporation did not have sufficient time to complete a Qualifying Transaction prior to December 13, 2010, and sought approval of its shareholders to (i) transfer to the NEX and (ii) cancel a sufficient number of escrowed Common Shares held by non-arm's length shareholders of the Corporation such that the average cost of the non-arm's length parties' remaining Common Shares after cancellation would be equal to $0.20 per Common Share, as required by TSX-V Policies. Such shareholder approval was obtained on December 13, 2010 and a total of 600,000 Common Shares held by non-arm's length parties were cancelled effective December 22, 2010. The Common Shares were listed on the NEX on

December 22, 2010. Prior to the completion of the Merger Transaction, the Corporation did not commence any commercial operations and did not have any tangible assets other than a minimal amount of cash. The Merger Transaction constituted the Corporation's Qualifying Transaction.

*Algae Nevada*

Algae Nevada was founded with the purpose of researching, developing, culturing, extracting, manufacturing, and distributing patented and proprietary compounds from marine and fresh water organisms to serve as input products in the manufacture of nutraceutical, pharmaceutical, cosmeceutical, and food additive products.

Prior to 2007, Algae Nevada acquired 84 acres of land in North Eastern Arizona and constructed a manufacturing and research facility to produce its algae-based products.

Also prior to 2007, Algae Nevada acquired the Patent, which covers the use of water drawn from the Coconino Aquifer.

From 2007 to the completion of the Merger Transaction, Algae Nevada developed bioreactor designs for future use and worked towards securing financing for commercialization. Algae Nevada ran a pilot plant for 12 months to (i) analyze all components of algae, (ii) generate enough biomass for extraction trials, (iii) determine the fatty acid composition of the oil from different species of algae, and (iv) determine which species of algae grew best at different temperatures and at different times of the year.

In 2009 and 2010, Algae Nevada conducted a very limited amount of research and produced a very limited amount of algae, due to its lack of capital resources. During these years, Algae Nevada had no net earnings, no employees, no revenue and negative operating cash flows. The primary focus of management was to obtain additional funding to allow for the continuance of the business. On October 19, 2010, the Algae Nevada signed a Letter of Intent in relation to the completion of the Merger Transaction with ABI and Corporation. At this time the focus of management moved to completing the Merger Transaction and the corresponding Prospectus Offering. In November 2010, Algae Nevada completed a non-brokered, private placement consisting of 509,650 units at $0.90 for gross proceeds of $458,681. These funds were used to pay expenses associated with the Merger Transaction, the Prospectus Offering and to fund production activities.

During 2010, Algae Nevada designed and put into testing under a commercial agreement, the BioMax Program to infuse concentrated algae cells with micronutrients to enhance crop growth. On July 1, 2010, Algae Nevada executed the Technical Services Agreement to pilot, on a commercial basis, the BioMax Program in the growing fields of an international food grower and processor. During 2010 and 2011, several field tests were performed utilizing the BioMax Program's specialized algae delivery method on a cantaloupe field in Southern Arizona.

In 2011, Algae Bio filed a patent application covering its BioMax Program used in agriculture to increase crop production and quality and improve soil quality as a low cost and eco-friendly alternative to chemical fertilizers. The application is currently pending at the United States Patent and Trademark Office. AlgaeBio is in the process of expanding its patent filings to cover additional aspects of the BioMax Program technology, in particular the system itself and its various fields of application. It is anticipated that these additional filings will be completed in the first half of 2012.

Between October 2010 and April 12, 2011, Algae Nevada implemented production activities that included plant expansion and the culturing of algae strains that were preparatory to producing Omega-3 fatty acid oils in Algae Nevada's bioreactors, in order to fulfill an initial order placed on October 8, 2010 under the Purchase and Distribution Agreement. See "*Material Contracts – Description of Purchase and Distribution Agreement*". These production activities included testing algae cultures to ensure that the Omega-3 fatty acid oil to be produced will meet certain product specifications. The culturing and testing activities were a necessary part of the process of fulfilling the initial order placed under the Purchase and Distribution Agreement. These culturing and testing activities continued throughout 2011 as AlgaeBio produced a limited amount of algae material to provide the customer with product samples and material to send to the product testing facilities.

In November 2010, Algae Nevada secured a license agreement with International IP Holdings, LLC, a company controlled by Andrew D. Ayers, Robert J. Thompson, Keith Guelpa, Mark Edwards, Rakesh Amin, Glen Galster, and Laurence M. Luke, allowing Algae Nevada the exclusive use of supplemental intellectual property including principally a selection of high yielding Omega-3 fatty acid oil algae strains. See "*Business of the Corporation – General*" and "*Material Contracts – Description of License Agreement*".

***The Merger Transaction and Prospectus Offering***

On January 28, 2011, the Corporation entered into the Merger Agreement with Algae Nevada and ABI pursuant to which the parties agreed to affect the Merger Transaction, whereby Algae Nevada would merge with ABI, and as the surviving corporation, ABI would become a wholly-owned subsidiary of the Corporation. The Merger Transaction was not a Non Arm's Length Qualifying Transaction as such term is defined in the TSX-V Policies. The Corporation did not require the approval of its shareholders in order to complete the Merger Transaction.

Effective April 13, 2011, the Corporation completed the Merger Transaction and changed its name from "Triwood Capital Corp." to "Algae Biosciences Corporation". In connection with the Merger Transaction, the holders of Algae Nevada Shares received one Common Share for each one Algae Nevada Share held prior to the completion of the Merger Transaction. In connection with the Merger Transaction, all outstanding warrants and similar rights to acquire Algae Nevada Shares were exchanged for warrants and similar rights to acquire Common Shares. Upon completion of the Merger Transaction there were 36,448,250 Common Shares and options and warrants to acquire an additional 4,511,579 Common Shares issued and outstanding in the capital of the Corporation. Upon completion of the Merger Transaction, the business of Algae Nevada became the business of the Corporation.

The Corporation also completed the Prospectus Offering on April 13, 2011. Pursuant to the Agency Agreement, the Corporation issued an aggregate of 28,750,000 Common Shares at a price of $0.20 per Common Share for aggregate gross proceeds of $5,750,000. The costs of the Prospectus Offering included an agent's fee of $0.02 (10%) for each Common Share sold pursuant to the Prospectus Offering, which was satisfied by the issuance 2,875,000 Common Shares to the Agent of at a deemed price of $0.20 per Common Share. The Corporation also granted to the agents an option, exercisable (in whole or in part) until April 13, 2013, to purchase up to an additional 2,875,000 Common Shares, on the same terms and conditions as the Prospectus Offering.

In connection with the Merger Transaction, the Board of Directors of the Corporation was reconstituted and a change in management occurred. The directors and officers of the Corporation upon completion of the Merger Transaction were: Andrew D. Ayers – President, Chief Executive Officer and Director; Robert J. Thompson – Chief Financial Officer, Corporate Secretary and Director; Kevin Blanchette – Director; Jody Stachiw – Director; and, Lawrence M. Luke – Director. For a description of the background of each of the directors of the Corporation, please see *"Directors and Executive Officers*".

On May 5, 2011, the Common Shares were reinstated for trading on the TSX-V under the trading symbol "ABV". Also on May 10, 2011, the Corporation changed its fiscal year end from December 31 to September 30.

***Post Merger Transaction to September 30, 2011***

AlgaeBio used the proceeds from the Prospectus Offering to purchase and install new capital equipment, to expand its production facilities near Holbrook, Arizona (the "**Project**") and for general working capital purposes in order to meet its customers' purchase requirements. On August 8, 2011, AlgaeBio entered into a contract with MMI Construction Services to manage and execute the Project at a cost of approximately USD 1,300,000. MMI Construction Services will furnish all the necessary labour, materials, equipment and tools necessary to complete the Project. The Project will house the water tanks, extraction and centrifuge equipment and provide onsite laboratory facilities. It is anticipated that the Project will be completed during the second quarter of 2012.

On November 11, 2011, AlgaeBio also entered into a formal agreement with Nanovoltaix, Inc. for the design, manufacture, test and supply of 1,600 bioreactors at a total cost of approximately USD 1,200,000. The delivery of the bioreactors to the Corporation's manufacturing facility in Holbrook, AZ is anticipated to begin in March 2012 and be completed no later than May 2012. These bioreactors will be used to cultivate and grow algae. The

Corporation plans to put into operation 1,500 of the 1,600 bioreactors, and will keep the remaining 100 bioreactors on hand as replacements. Once operational, it is currently anticipated that the 1,500 bioreactors will allow AlgaeBio to produce a monthly total of 5,900 kilograms of whole algae powder, which is the equivalent of 1,060 kilograms of Omega-3 fatty acid oil, 4,250 kilograms of high-protein algae meal, and 590 kilograms of whole algae powder.

***Subsequent Events***

On October 19, 2011, the Corporation held its annual and special meeting of shareholders where shareholders approved the appointment Hein & Associates as auditors of the Corporation, re-elected all members of the Board of Directors, accepted a revised stock option plan which changed the Corporation's stock option plan from a rolling plan to a 12.5% fixed plan and approved the amendment of the Corporation's Articles of Incorporation and By-laws to allow for shareholders meetings to be held outside of Alberta.

On October 19, 2011, the Corporation amended its Articles of Incorporation and By-laws to allow for meetings of shareholders to be held outside of the Province of Alberta.

On December 29, 2011, the international food grower and processor terminated the Technical Services Agreement. See "*Material Contracts – Description of Technical Services Agreement*".

On January 3, 2012, the Corporation granted 6,000 incentive stock options to several long term employees of the Corporation. The stock options have an exercise price of $0.17, are immediately exercisable and expire five years from the date of grant.

On February 16, 2012, AlgaeBio hired Gordon Aldcorn to provide investor relations services. Mr. Aldcorn is paid a monthly fee of $3,500, and was granted 400,000 stock options with an exercise price of $0.20. The stock options vest equally and quarterly in equal portions over the first 12 months of the services agreement. The stock options expire at the earlier of 30 days after termination of the agreement, or five years from the date of grant.

On February 24, 2012, the Corporation granted 1,000,000 incentive stock options to certain directors and consultants of the Corporation. The stock options have an exercise price of $0.15, are immediately exercisable and expire five years from the date of grant.

To date, AlgaeBio has no net earnings, no revenue and negative operating cash flows, which are expected to continue at least thru March 2012.

During fiscal year 2012, it is anticipated that AlgaeBio will require additional funds to complete the Project, to purchase necessary drying and extraction equipment and to complete its first outdoor covered production raceway pond. AlgaeBio is considering completing a short form prospectus offering and/or senior debt funding to provide these funds.

**Significant Acquisitions**

The Corporation did not complete any acquisitions during the year ended September 30, 2011 for which disclosure is required under Part 8 of NI 51-102.

## BUSINESS OF THE CORPORATION

**General**

AlgaeBio is a Canadian company that is focused on discovering strains of algae and unlocking the powers of those strains to resolve critical human issues, such as nutrition, health, energy and the environment. AlgaeBio produces human and animal consumable vegetable products, and offers advanced algae-based products and technologies for distribution into the agribusiness, biofuel, and aquaculture markets.

***Summary***

AlgaeBio is a biotechnology company that intends to produce proprietary products from algae using a proprietary production system. AlgaeBio intends to complete full-scale production facilities by the end of the second quarter of 2012. AlgaeBio owns property and production facilities located near Holbrook, Arizona. The first stage of these facilities has produced algae in test batches since October 2006.

AlgaeBio has developed an "algae production platform" that AlgaeBio believes will allow the production of various products. Algae products can be used as nutraceuticals, nutritional supplements, therapeutic proteins, as dyes in diagnostic tests and biotechnology, for aquaculture and animal consumption, food additives and functional foods, in personal care and cosmetics, as biofuels, and a host of other potential product applications. AlgaeBio is initially focused on extracting Omega-3 fatty acid oils from algae for customers in the nutraceutical and food additive industries. AlgaeBio produces Omega-3 fatty acid oil products that contain both EPA and DHA, which are essential fatty acids that cannot be produced by the human body. The vast majority of competing products contain only DHA.

AlgaeBio selects specific algae species and cultures them in uncontaminated saline water from a unique aquifer: an ancient sea that has been undisturbed for hundreds of millions of years. The Coconino Aquifer is located hundreds of miles from the nearest coast, deep beneath the surface of the earth, where it is protected from sources of pollution. It covers about 40,000 square miles in the northeast corner of Arizona. Most of the groundwater in this aquifer is fresh, however, in the area east of Holbrook, where AlgaeBio's operations are located, the aquifer intercepts a salt dome, producing saline groundwater. This salt dome, known as the "Holbrook Basin", has an aerial extent of 4,500 square miles and maximum thickness of 1,000 feet. This saline groundwater is free of pesticides, herbicides, and most heavy metals and therefore, is a highly desirable medium for growing marine algae. AlgaeBio's facility overlies the northern edge of the salt dome, providing unfettered access to as much water as is required by AlgaeBio for the production of algae. To date, there has been no need to remove contaminants from the water extracted from the Coconino Aquifer. The Patent provides AlgaeBio exclusive access to all similar inland saline aquifers located in the U.S, or to licensees of its choosing, for the culture of algae and any and all other marine species using AlgaeBio's methods and systems. Consequently, AlgaeBio's product output, both oil and meal, has natural high purity. AlgaeBio's technology harnesses this geologic anomaly for the production of pure nutraceutical input products and food additives. In addition, the temperature range and hours of sunlight in the area of AlgaeBio's facilities are considered ideal for the production of many algae species. AlgaeBio's usage cost of this uncontaminated saline water is limited to the energy cost to pump it from underground.

AlgaeBio's proprietary bioreactor development program required several years to complete, drawing on the services of an external team of engineers and scientists. The resulting bioreactor designs encompass five generations of new bioreactors and production facility arrays, the first two of which have been fully tested and have been in production. The remaining designs are potentially more efficient than those currently in use but are only appropriately employed once production has scaled to very large quantities. They will be tested and installed systematically over the next several years.

On October 8 2010, AlgaeBio entered into the Purchase and Distribution Agreement with GHT. The Purchase and Distribution Agreement provides that GHT will purchase, and has the exclusive right to purchase, all of the Omega-3 fatty acid oil, whole algae powder, or algae meal targeted for use in the food additive and nutraceutical industries that AlgaeBio can produce.

GHT is headquartered in Vista, California. Its focus and recognized expertise is in the maintenance of healthy digestive processes. The company markets and sells a distinctive line of health products featuring probiotics, enzymes, antioxidants and other pivotal nutraceuticals that focus on the health of the digestive system. Shipments to GHT are estimated to begin in the second quarter 2012 and terms of sale are net 30 days.

Currently, AlgaeBio is in the process of completing the Project, which is estimated to be completed during the second quarter of 2012. Initial aspects of the Project will include the construction of a process building addition, the installation and activation of 1,500 new bioreactors, support extraction and centrifuge equipment, as well as the purchase or lease of property for a freshwater well.

During the fiscal year ended September 30, 2011, Algae Bio did not incur any company-sponsored research and development expenses. AlgaeBio did not incur any such expenses during the fiscal year ended December 31, 2010. AlgaeBio relies primarily on in-house capabilities for production and other process development. AlgaeBio has collaborated closely with Dr. Quiang Hu and Dr. Milton Summerfield at Arizona State University to determine the fatty acid composition of the oil from different species of algae, and to determine which species of algae grew best at different temperatures and at different times of the year. All other research and preproduction activities have been performed at AlgaeBio's Holbrook location.

Once the process building expansion is completed and the bioreactors and several other pieces of production equipment are operational, it is anticipated the facility will produce products for commercial production and will operate 24 hours a day.

***Principal Markets and Distribution Methods***

On October 8 2010, AlgaeBio entered into the Purchase and Distribution Agreement with GHT. The Purchase and Distribution Agreement provides that GHT will purchase, and has the exclusive right to purchase, all of the Omega-3 fatty acid oil, whole algae powder, or algae meal targeted for use in the food additive and nutraceutical industries that AlgaeBio can produce. GHT has been in the business of nutritional product manufacturing and distribution since 1997.

AlgaeBio believes that the Purchase and Distribution Agreement will provide AlgaeBio with a multi product reach and worldwide outlet for a wide variety of core and supplemental products.

***Intellectual Property***

AlgaeBio currently holds the Patent, and also possesses a body of other proprietary information and intellectual property. Based on earlier work by the founders, AlgaeBio's technology and product development program has spanned five years. With a desire for independent validation, AlgaeBio has collaborated closely with Dr. Quiang Hu and Dr. Milton Summerfield at Arizona State University and Dr. Wayne Johnson with the Arizona Technology Innovation Group and has tested and refined with them a variety of alternative production approaches.

In addition to the Patent, AlgaeBio's principal intellectual property, which is protected as trade secret under U.S. law, includes the following (collectively, the "**Trade Secrets**"):

- continuous process bioreactor A and B designs;
- harvesting techniques, processes, and procedures;
- media formulations for agricultural application;
- extraction procedures;
- drying protocols and procedures;
- water conditioning and processing techniques and protocols;
- algae culture cleansing protocols;
- specific techniques for inoculation of algae cultures;
- algae culture techniques;
- covered pond and infrastructure design;

- engineering for water movement processes within raceway ponds;
- techniques for incorporation of $CO_2$ into the media;
- contamination control protocols and techniques;
- pond heating and cooling regulation techniques; and
- specific control apparatus for algae production in agriculture.

***The Licensed Intellectual Property***

The Licensed Intellectual Property is owned by International IP. International IP is owned directly or beneficially by Andrew D. Ayers, Robert J. Thompson, Keith Guelpa, Mark Edwards, Rakesh Amin, Glen Galster, and Laurence M. Luke. The Licensed Intellectual Property was licensed to AlgaeBio, on a world-wide, exclusive basis, under the terms and conditions of the License Agreement. See "*Material Contracts – Description of License Agreement*". The algae strains contained within the Licensed Intellectual Property have been used to grow sample Omega-3 fatty acid oil products in AlgaeBio's facilities and independent laboratories have tested the resultant products. All algae strains developed by International IP for AlgaeBio are subject to the License Agreement, and such algae strains that show breakthrough strengths, as nutritional or pharmaceutical input products, will warrant pursuit of patent protection. AlgaeBio will pay a sliding scale royalty based on gross margin performance.

AlgaeBio is also granted an exclusive option to purchase International IP (the "**IP Interests**") or all of its assets (the "**IP Assets**") under the License Agreement, in accordance with the following:

1. The purchase price for the IP Interests or IP Assets will be equal to 15% of the average market capitalization of AlgaeBio (as determined by AlgaeBio's listing on the TSX-V, and without giving effect to any outstanding rights, options, or warrants to purchase or otherwise acquire Common Shares) during the 60 day period immediately preceding the date of purchase (the "**Purchase Price**");

2. The Purchase Price will be paid directly to the owners of International IP (collectively, the "**Owners**") or distributed to the Owners through International IP in the form of AlgaeBio Shares equal in value to the Purchase Price (the "**IP Payment Shares**"); and

3. AlgaeBio will also pay the Owners, or in the case of an asset sale, then payment will come to International IP with a distribution to the Owners, cash consideration in an amount equal to the actually computed federal and state tax liabilities imposed on the Owners in connection with their sale of the IP Interests to AlgaeBio under this Section.

The term of the License Agreement is five years, renewable at the option of International IP, for successive five-year terms. The current term of the License Agreement is scheduled to expire on November 29, 2015.

The Licensed Intellectual Property is critical to the production of AlgaeBio's Omega-3 fatty acid oil product stream. The Licensed Intellectual Property has been developed to produce high yields of those oils and to survive and produce in the specific environment in which AlgaeBio's facilities are located. The Patent and Trade Secrets are not as capable of cost effectively producing Omega-3 fatty acid oils or related products without the use of the Licensed Intellectual Property. Conversely, the Licensed Intellectual Property is not as capable of being cultured, harvested, and processed cost effectively to produce Omega-3 fatty acid oils in commercial quantities without using the Patent and Trade Secrets.

AlgaeBio is not constrained under the License Agreement from pursuing and developing algae strains to be used in the production of an array of products, including, but not limited to, Omega-3 fatty acid oils. However, to the extent that AlgaeBio develops any modifications, customizations or other derivative works of the Licensed Intellectual

Property, those works shall be exclusively owned upon creation by International IP and shall be subject to the terms and conditions of the License Agreement.

International IP was organized by Andrew D. Ayers in order to hold, own, maintain, enhance, and develop the Licensed Intellectual Property, which consists of intellectual property he developed individually and independently from AlgaeBio. In addition, International IP will function as an algal technology discovery firm. In forming International IP, Mr. Ayers asked certain individuals to be co-founders of International IP and to take lead roles in the guidance and management of its day-to-day affairs and its future activities. These individuals comprise Messrs. Thompson and Luke who are directors of AlgaeBio and Messrs. Galster, Guelpa, Amin, and Edwards, all of whom were directors of Algae Nevada. The primary purpose of International IP is to own, further enhance, and safeguard the Licensed Intellectual Property. Additionally, under specifically negotiated mandates from AlgaeBio, International IP may be engaged to conduct a broad range of research and development activities focused on discovering and refining additional strains of algae for AlgaeBio; to search for and review novel research and available technologies that might be applicable to AlgaeBio's current or future activities; and to explore the scientific feasibility of AlgaeBio pursuing the use of algal cultures or culturing methodologies in new and novel applications. The resources of International IP will be available to support the research and development requirements of AlgaeBio. As a matter of practice, AlgaeBio and International IP will enter into a written agreement with respect to each instance wherein International IP is engaged to conduct research and development activities.

The principal underlying the structure of the License Agreement and its embedded royalty fee and purchase price formulae is that the worth of the Licensed Intellectual Property will be demonstrated in the level of gross margin realized from the production and sale of Omega-3 fatty acid oils, and also in the market valuation of the Corporation. If the Licensed Intellectual Property is of high worth, then the gross margin on Omega-3 fatty acid oil production will be at a high level relative to revenue and, consequently, the market valuation of AlgaeBio will be at a high level (assuming that high gross margin translates into high net earnings per share). Hence, the royalty fees payable under the License Agreement are low if gross margins are low and are higher if the gross margins are higher.

The royalty fee will be paid on an annual basis, in arrears, and is due and payable within 60 days after AlgaeBio publicly releases its year-end financial statements. The royalty fee due will be determined in accordance with the following:

| **Gross Margin (US$)** | **Royalty Fee** |
|---|---|
| 0 – 1,000,000 | 0 |
| 1,000,000 – 4,999,999.99 | 2.5% of Gross Margin |
| 5,000,000 – 9,999,999.99 | 5% of Gross Margin |
| 10,000,000 – 14, 999,999.99 | 10% of Gross Margin |
| 15,000,000 – 19, 999,999.99 | 15% of Gross Margin |
| 20,000,000 – 29, 999,999.99 | 20% of Gross Margin |
| 30,000,000 – 39, 999,999.99 | 30% of Gross Margin |
| Greater than 40,000,000 | 40% of Gross Margin |

For purposes of the License Agreement and the above table, "**Gross Margin**" will mean gross margin as defined under IFRS, as consistently applied, resulting from the production and sale of products derived from cultures of the specific algae contained within the Licensed Intellectual Property. The royalty fee percentages are to be progressively applied against the total Gross Margin. For example, if Gross Margin equals US$25,000,000, the royalty fee due will be US$2,599,999.96, determined as follows: ((US$1,000,000 – US$0) x 0) + ((US$4,999,999.99 - US$1,000,000.01) x .025) + ((US$9,999,999.99 - US$5,000,000) x .05) + ((US$14,999,999.99 - US$10,000,000) x .10) + ((US$19,999,999.99 - US$15,000,000) x .15) + ((US$25,000,000 - US$20,000,000) x .20).

The nature of AlgaeBio's business model is that the majority of its costs are imbedded in the costs of goods produced. The general, administrative, and marketing costs of operation that must be deducted from Gross Margin to derive profit or loss before income taxes tend to be fixed.

The License Agreement does not require that AlgaeBio exclusively use the algal strains contained within the Licensed Intellectual Property. AlgaeBio is not constrained from undertaking research to develop other algal strains in connection with its operations. The royalty fees due to International IP are only assessed on Gross Margins realized from the revenues generated from sale of products specifically cultured from the Licensed Intellectual Property.

Further, AlgaeBio is not constrained by the License Agreement from using any other algal strains to produce any nutraceutical, food additive, cosmeceutical, pharmaceutical or alternative energy products. The License Agreement gives the Corporation., through the AlgaeBio Board, the authority and right to determine, from time to time, whether it is cost effective to use the algal strains that are available under the License Agreement or to discontinue or limit their use, and also whether it is in the best interest, at some point in time, to, through the option, acquire ownership of International IP or its assets for the price based on the agreed purchase price formula set forth in the License Agreement, or some other price established by mutual agreement between the Corporation and International IP.

AlgaeBio has served notice to International IP of its intent to exercise its option to acquire International IP, subject to certain amendments to the acquisitions terms outlined in the License Agreement. Negotiations between the parties with regards to those amendments are ongoing. It is anticipated that if the proposed acquisition is successfully completed, all of AlgaeBio's intellectual property ownership and protection will be centralized in a wholly owned subsidiary of the Corporation.

***Employees and Specialized Skills and Knowledge***

AlgaeBio currently employs 14 people in North America, four of whom work in the laboratory as algae culturists and have biology, chemistry or microbiology backgrounds. AlgaeBio requires all employees to enter into an invention, non-disclosure and non-compete agreement.

***Production and Services***

AlgaeBio's plant consists of an array of bioreactors, together with multi-purpose, off-the-shelf centrifuges, extractors and dryers most of which are housed within a standard process building. Growing capacity will be enhanced by the use of outdoor covered production raceway ponds. The water is sourced is from the Coconino Aquifer. The water obtained from the Coconino Aquifer and the temperature range and hours of available sunlight in North Eastern Arizona, provide excellent conditions for the culture of algae. A full laboratory is located in a separate building adjacent to the plant. This building also houses the administrative offices of ABI.

AlgaeBio uses a closed loop, continuous-process system to grow and harvest algae, rather than a batch-process fermentation system, which requires downtime to harvest, clean, and re-inoculate. The algae production system begins with inoculation of an algae solution into the bioreactors along with saline water and nutrients. After the algae are harvested from the bioreactors, a centrifuge is used to produce an algae paste. All recovered aquatic medium and nutrients are returned to the bioreactors after being thoroughly cleaned and disinfected using standard wastewater treatment equipment. The algae paste is then frozen to break open the cells and dried using a pulse dryer. The pulse dryer produces a fine, free flowing algae powder with minimal degradation, and can handle high-viscosity concentrations of algae. The extraction process utilizes supercritical $CO_2$ to extract the oil and separate the solids (algae meal) from the liquids (Omega-3 fatty acid oil). After extraction, the Omega-3 fatty acid oil and the other algae products are packaged in airtight containers overlaid with nitrogen gas and shipped to customers.

AlgaeBio's production process pulls carbon from the atmosphere and utilizes natural sunlight for algae growth. There is only a minor requirement to purchase and add additional carbon (in the form of $CO_2$) to enable algae growth. AlgaeBio leverages its available capital and production volumes by using both bioreactors, which are enclosed within greenhouse structures, and large outdoor covered raceway ponds. AlgaeBio has free, non-competitive access to the water uses its culturing processes, and operates using a totally green production methodology that incurs no regulatory compliance costs.  Having uncontaminated saline water as a growth medium allows AlgaeBio to potentially develop and grow more algae strains than is possible using non-saline water. Because of AlgaeBio's consistent sunlight exposure, uncontaminated saline water supply, and proprietary technology, it can potentially produce algae at a low cost.

***Regulatory Compliance***

AlgaeBio's initial products will be classified as dietary supplements.  The FDA regulates dietary supplements under a set of regulations that are different from and less stringent than those covering "conventional" foods and drug products.  Generally, manufacturers do not need to register their products with the FDA or get FDA approval before producing or selling dietary supplements.  Manufacturers must make sure that product label information is truthful and not misleading.

AlgaeBio has engaged the consulting firm of GRAS Associates, LLC to evaluate the feasibility of gaining GRAS status for AlgaeBio's Omega-3 fatty acid oils as an ingredient in human food products.  AlgaeBio plans to apply for GRAS certification under the Food, Drug and Cosmetic Act and expects this certification to be obtained since its products are essentially the same as products being sold in the marketplace that have already received GRAS certification.  AlgaeBio cannot guarantee that such certification will be obtained.

AlgaeBio intends to eventually produce a broad range of high-quality products from various species of algae. AlgaeBio has both the intellectual property and the technological capabilities necessary to capitalize on opportunities that emerge from algae research occurring in laboratories around the world.  Some of the product categories that might be the focus of AlgaeBio's product development activities in coming years include:

- Nutritional and personal care: food supplements and additives, food and cosmetic dyes, cosmetic additives.
- Aquaculture: live microalgae concentrate, live macroalgae fish food, live and dried macroalgae human food, larval and grow-out diets for fish and shrimp.
- Transgenic products: vaccines, therapeutic proteins, diatom fustules (shells) for nanotechnology.
- Alternative energy: biodiesel and alcohols.

AlgaeBio intends to continue to collaborate with scientists at Arizona State University and Northern Arizona University in furthering its product development initiatives.

***Competitive Conditions***

AlgaeBio anticipates significant competition in the development and marketing of new competing microalgae and macroalgae products.  Competitors are expected to include major pharmaceutical, food processors, and chemical and specialized biotechnology companies.  There are also other emerging marine biotechnology companies that could form collaborations with large established companies to support research, development, and commercialization of products that may compete with our current and future products.  Also, academic institutions, governmental agencies, and other public and private research organizations are conducting research activities and seeking patent protection for microalgae and macroalgae products.  These organizations may commercialize products that could compete directly or indirectly with AlgaeBio's believes its products to be of superior quality, and that they serve as replacements to the products available from competitors.

AlgaeBio believes it has a strong competitive position.  AlgaeBio feels that its consistent sunlight exposure, saline water supply, and advanced proprietary technology, will provide it with the capacity to produce products at a low cost.  Many of AlgaeBio's competitors are located in coastal locations, where the cost of acquiring land can be very high.  Some of AlgaeBio's competitors are located in Hawaii where in addition to high land costs, transportation costs are also high.  These factors can greatly increase the cost of doing business for those competitors.

AlgaeBio enjoys having an exclusive, uncontaminated, saline water source for use in its methods and systems. Having saline water as a growth medium allows AlgaeBio to potentially develop and grow a far wider variety of algae strains than is possible using non-saline water. This in turn should allow AlgaeBio the potential to engineer and produce a far greater array of food and nutritional products, pharmaceutical input products and bio-fuels.

AlgaeBio's pure algae-based products typically have an advantage in quality over algae grown in saline water obtained from the ocean and high saline lakes and other saline aquifers, as those sources contain contaminants. Such contaminants can make nutritional products produced from those sources less commercially valuable. It is anticipated that AlgaeBio's products will attract market prices as nutritional, nutraceutical, and pharmaceutical input products.

AlgaeBio's products may potentially be more desirable than those of certain competitors, due to the fact that AlgaeBio's production process utilizes supercritical $CO_2$, and therefore will not leave toxic hexane or other organic solvents or residues in the Omega-3 fatty acid oil and the meal.

**Reorganization**

The Merger Transaction, which was completed effective April 13, 2011, was considered a "reverse take-over" of the Corporation as it was then constituted (as "Triwood Capital Corp.", a Capital Pool Company), by Algae Nevada. The Merger Transaction is described above under the heading "*General Development of the Business – History of the Corporation – Incorporation to Completion of Merger Transaction – Merger Transaction*".

**Environmental Responsibility**

AlgaeBio's products will be produced from renewable and plant-based sources. AlgaeBio's products neither deplete nor destroy natural resources in their acquisition or production. All substances leaving AlgaeBio's facility are carbon neutral by-products that are sold, or waste products that are beneficial to the environment.

**Economic Dependence**

On October 8 2010, AlgaeBio entered into the Purchase and Distribution Agreement with GHT. The Purchase and Distribution Agreement provides that GHT will purchase, and has the exclusive right to purchase, all of the Omega-3 fatty acid oil, whole algae powder, or algae meal targeted for use in the food additive and nutraceutical industries that AlgaeBio can produce. AlgaeBio is highly dependent on GHT for all of its future revenue and anticipates that this dependency will continue for the life of the contract. See "*Material Contracts – Description of Purchase and Distribution Agreement*".

## RISK FACTORS

An investment in the shares of AlgaeBio is subject to certain risks. Investors should carefully consider the risk factors set out below and consider all other information contained herein and in the Corporation's other public filings. In order to mitigate these risks, the Corporation has qualified technical and financial personnel. Additional risks and uncertainties not currently known to the management of the Corporation may also have an adverse effect on AlgaeBio's business and the information set out below does not purport to be an exhaustive summary of the risks affecting AlgaeBio.

**Management of Growth**

The Corporation may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Corporation to manage growth effectively will require it to continue to implement and improve its operations and financial systems and to expand, train, and manage its employee base. The inability of the Corporation to deal with potential growth could have a material adverse impact on its business, operations, and prospects.

**Forward-Looking Statements and Information May Prove Inaccurate**

Investors are cautioned not to place undue reliance on forward-looking statements and information. By its nature, forward-looking statements and information involves numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking statements and information or contribute to the possibility that predictions, forecasts, or projections will prove to be materially inaccurate. Additional information on the risks, assumptions, and uncertainties are found above under the heading "*Cautionary Note Regarding Forward-Looking Statements*".

**Investment Returns and Dividends**

AlgaeBio has never paid a dividend nor made a distribution on any of its securities. Further, the Corporation may never achieve a level of profitability that would permit payment of dividends or making other forms of distributions to its shareholders. In any event, given the stage of the Corporation's development, it will likely be a long period of time before the Corporation could be in a position to make dividends or distributions to its investors. The payment of any future dividends by the Corporation will be at the sole discretion of the board of the directors of the Corporation. In this regard, the Corporation currently intends to retain earnings to finance the expansion of its business and does not anticipate paying dividends in the foreseeable future. Dividends paid by the Corporation would be subject to tax under both the *Income Tax Act* (Canada) and the U.S. Internal Revenue Code of 1986, as amended.

**Issuance of Debt**

From time to time, the Corporation may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may increase the Corporation's debt levels above industry standards. Neither the Corporation's articles nor its by-laws limit the amount of indebtedness that the Corporation may incur. The level of the Corporation's indebtedness from time to time could impair the Corporation's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

**Development Stage Business**

The Corporation and its predecessor Algae Nevada commenced operations in July 2007. Accordingly, the Corporation has only a limited history upon which an evaluation of its prospects and future performance can be made. AlgaeBio has a limited operating history, has never operated at a profit and there can be no assurance of its ability to operate at a profit. To date, AlgaeBio has a history of losses. The Corporation has had no sales of products to date as all production has been allocated to testing and process development. The Corporation's proposed operations are subject to all business risks associated with new enterprises. The likelihood of the Corporation's success must be considered in light of the problems, expenses, difficulties, complications, and delays frequently encountered in connection with the expansion of a business, operation in a competitive industry, and the continued development of advertising, promotions, and a corresponding customer base. There is a possibility that the Corporation could sustain losses in the future. If the Corporation is unable to generate revenues or profits, investors might not be able to realize returns on their investment or keep from losing their investment.

**Inadequacy of Funds**

The Corporation may have inadequate funds available to sustain the Corporation sufficiently to allow for the continued development and improvement of the manufacturing facilities, the payment of wages to employees and other general and administrative expenses, and the manufacturing of the Corporation's products and may need debt financing or other capital investment to fully implement the Corporation's business plans. There is no assurance that such debt financing or other capital investment can be secured. Failure to obtain such financing on a timely basis could result in the Corporation being unable to fully develop its business and reduce or terminate its operations.

**Dependence on Management**

In the early stages of development the Corporation's business will be significantly dependent on the Corporation's management team including outside management advisors and consultants. The Corporation's success may be particularly dependent upon Robert J. Thompson, the Chairman of the Board and Andrew D. Ayers, President and principal executive officer. AlgaeBio has mitigated the loss of Mr. Ayers through the purchase of $2,000,000 in life insurance naming AlgaeBio's investors as the beneficiaries. Nonetheless, the loss of the Corporation's officers, other employees, advisors, or consultants could have a material adverse effect on AlgaeBio.

**Product Liability**

Marketing any of the Corporation's current or potential future products may expose the Corporation to liability claims arising from the use of these products. The Corporation cannot ensure that its current or future liability insurance, together with indemnification rights under any potential future license agreements and other collaborative arrangements, will be adequate to protect it against any claims and resulting liabilities. As the Corporation's business expands, it may be unable to obtain additional insurance on commercially reasonable terms. The Corporation may be subject to product liability lawsuits, and its insurance may be inadequate to cover potential damages. Therefore, the Corporation's financial condition and its reputation could be adversely affected if a product liability claim or recall exceeds insured amounts.

**Inability to Manage the Potential Growth of the Business**

The Corporation's potential growth may place significant demands upon its personnel, management, and financial resources. There is no assurance that its current or proposed personnel, systems, procedures, and controls will be adequate to support its future operations, that the Corporation will be able to train, retain, motivate, and manage necessary personnel, or that its management will be able to identify, manage and exploit existing and potential strategic relationships and market opportunities. If The Corporation is unable to effectively manage any future growth, its business and financial condition could be adversely affected.

**Challenges to Commercial Algae Production**

A main challenge to commercial production of algae is the ability to produce large quantities of a single species that are sustainable and continuous. Unfortunately, a single species of algae does not fill entire bodies of water without contamination. The following problems must be consistently minimized and substantially regulated for successful production and profitability of the Corporation's products: (i) control of contaminates; (ii) control of temperature; (iii) control of nutrients; (iv) control of light; and (v) sufficient production relative to costs to attain economic viability.

**Environmental and Climatic Factors**

AlgaeBio's production capability is dependent on environmental and climatic factors beyond its control. Conditions such as consistent sunlight, sufficiently high temperatures, and the provision of uncontaminated saline water are necessary for appropriate algae growth. If the Corporation experiences any significant or unusual change in climate or should its water supplies be threatened by contamination, there could be an adverse impact on its production. If production is sufficiently diminished or ceases for any prolonged period, then the success of the Corporation's business could be threatened from a resulting loss of customers, revenues, and valuable employees.

**Customer Base and Market Acceptance**

While the Corporation believes it currently has a customer base, the inability of the Corporation to continue to develop such a customer base could have a material adverse effect on the Corporation. Although the Corporation believes that its products offer advantages over competitive companies and products, no assurance can be given that their products will attain a degree of market acceptance on a sustained basis or that it will generate revenues sufficient for sustained profitable operations.

### Competition

If the Corporation fails to compete effectively against larger, more established companies with greater resources, then its business may suffer. Competition in the market for nutraceutical and other nutritional supplement products is intense. Factors affecting competition include financial resources, research and development capabilities, and manufacturing and market expertise and resources.

The Corporation anticipates significant competition in the development and marketing of new competing microalgae and macroalgae products. Competitors are expected to include major pharmaceutical, food processors, and chemical and specialized biotechnology companies. Many of these companies will have financial, technical, and marketing resources greater than The Corporation's. There are also other emerging marine biotechnology companies that could form collaborations with large established companies to support research, development, and commercialization of products that may compete with our current and future products. Also, academic institutions, governmental agencies, and other public and private research organizations are conducting research activities and seeking patent protection for microalgae and macroalgae products. These organizations may commercialize products that could compete directly or indirectly with the Corporation's products on their own or through joint ventures. In addition, the Corporation may be unaware of technologies or technologies may be developed in the future that could adversely affect our perceived technical and competitive advantage.

### Key Personnel

The Corporation's success depends, in part, on its ability to attract and retain key scientific, technical, management, and operating personnel, including consultants and members of its Board of Directors. The Corporation needs to develop sufficient expertise and add skilled employees or retain consultants in areas such as research and development, clinical testing, governmental approvals, manufacturing, and marketing in order to successfully execute its business plan. The Corporation may be unable to attract and retain qualified personnel or develop the expertise needed in these areas. If the Corporation fails to attract and retain key personnel it may be unable to execute its business plan, or its business could be adversely affected.

### Government Regulation

If the Corporation is unable to comply with current or future government regulations of its products and production activities, the Corporation may be forced to discontinue production of current or future products. The Corporation is subject to federal, state, local, and foreign laws and regulations governing its products and production activities. Each existing or potential microalgae and macroalgae product that is developed, produced, marketed, or licensed presents unique regulatory problems and risks. The problems and risks depend on the product type, its uses, and method of manufacture. For products used in human nutrition, pharmaceuticals, or cosmetics, the Corporation may be required to develop and adhere to Current Good Manufacturing Practices ("**CGMP's**") as required by the United States Food and Drug Administration, ISO standards as required in Europe, and any other applicable standards. The goal is to be CGMP certified fully compliant and ISO certified fully compliant. However, the Corporation cannot guarantee that it will meet CGMP and ISO qualifications. If it is unable to comply with these practices and procedures, the Corporation may be unable to produce its current or future products.

### International Operations

The Corporation expects to market and sell many of its products on a global scale, because their use is generally more accepted and more highly developed in Europe and Asia than in the U.S. International business may be more difficult, which could create additional costs and delays. For example, tariff regulations, governmental controls and regulations, political and economic instability, or other trade restrictions can all lead to increased costs of operation and possible loss of revenue and profitability. Therefore, currency fluctuations, different standards, and regulations and laws related to international operations may adversely affect the Corporation's operations.

**No Assurances of Protection for Patents, Proprietary Rights, or Trade Secrets**

The Corporation relies on patents and trade secrets, which it has developed or may develop in the future to protect its proprietary technology and processes and maintain its competitive position. There can be no assurances that secrecy obligations will be honoured or that others will not independently develop similar or superior technology. The protection of proprietary technology through patents or claims of trade secret status has been the subject of increasing claims and litigation by various companies both in order to protect proprietary rights as well as for competitive reasons even where proprietary claims are unsubstantiated. The prosecution of proprietary claims or the defence of such claims is costly and uncertain given the uncertainty and rapid development of the principles of law pertaining to this area. The Corporation, in common with other firms, may also be subject to claims by other parties with regard to the use of technology information and data, which may be deemed proprietary to others.

**Buyers' Preference & Spending Trends; Possible Fluctuations in Operating Results**

The Corporation's operating results may fluctuate significantly from period to period as a result of a variety of factors, including purchasing patterns of customers, competitive pricing, debt service and principal reduction payments, and general economic conditions. There is no assurance that the Corporation will be successful in marketing any of its products, or that the revenues from the sale of such products will be significant. Consequently, the Corporation's revenues may vary by quarter, and their operating results may experience fluctuations.

**Unanticipated Obstacles to Execution of the Business Plan**

The Corporation's business plans may change significantly. Many of the Corporation's potential business endeavours are capital intensive and may be subject to statutory or regulatory requirements. The Corporation believes that its chosen activities and strategies are achievable in light of current economic and legal conditions with the skills, background, and knowledge of its principals, advisors, and consultants. The Corporation reserves the right to make significant modifications to any of the Corporation's stated strategies depending on future events.

**Future Litigation**

The Corporation may be subject to litigation arising out of its operations, although there currently are no such lawsuits. Damages claimed under such litigation may be material or may be indeterminate, and the outcome of such litigation may materially impact the Corporation's business, results of operations, or financial condition. While the Corporation will assess the merits of any lawsuit and defend itself accordingly, it may be required to incur significant expense or devote significant financial resources to defending itself against such litigation. In addition, the adverse publicity surrounding such claims may have a material adverse effect on the Corporation's business.

**The Market Price of the Common Shares May Be Subject to Wide Price Fluctuations**

The market price of the Common Shares may be subject to wide fluctuations in response to many factors, including variations in the operating results of the Corporation and its subsidiaries, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for the Corporation and its subsidiaries, general economic conditions, changes in raw material sources or resource estimates, legislative changes, and other events and factors outside of the Corporation's control. In addition, stock markets have, from time to time, experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for the Common Shares.

**General Economic Conditions**

The financial success of the Corporation may be sensitive to adverse changes in general economic conditions in the United States such as war, terrorist attacks, recession, inflation, labour disputes, demographic changes, weather or climate changes, unemployment, and interest rates. Such changing conditions could reduce demand in the marketplace for the Corporation's products. Management believes that the niche products the Corporation may market may insulate the Corporation from excessive reduced demand. Nevertheless, the Corporation has no control over these changes.

**Dividend Policy**

The Corporation may retain any initial future earnings to fund operations and expand the Corporation's business. Common Shareholders will be entitled to receive dividends only when, as, and if declared by the Board of Directors out of funds legally available there from. The Corporation's Board of Directors will determine future dividend policy based upon the Corporation's results of operations, financial condition, capital requirements, and other circumstances.

**Enforcement of Civil Liabilities**

Substantially all of the assets of AlgaeBio are located outside of Canada and certain of the directors and officers of the Corporation reside outside of Canada. As a result, it may be difficult or impossible to bring an action in Canada against directors, officers, or experts who are not residents of Canada. It may also not be possible for an investor to enforce judgments granted by a court in Canada against the assets of the Corporation or the directors and officers of the Corporation residing outside of Canada.

## DESCRIPTION OF SHARE CAPITAL

The authorized capital of AlgaeBio consists of an unlimited number of Common Shares without par value and an unlimited number of preferred shares ("**Preferred Shares**"). As at the date hereof, 68,369,750 Common Shares and no Preferred Shares are issued and outstanding. In addition, 8,378,500 Common Shares are reserved for issuance pursuant to options to purchase Common Shares granted to the Agent and directors and officers of the Corporation and 2,056,578 Common Shares are reserved for issuance pursuant to outstanding Warrants.

**Common Shares**

AlgaeBio is authorized to issue an unlimited number of common shares of which, as at the date hereof, 68,369,750 Common Shares are issued and outstanding. The following is a summary of the material attributes and characteristics of the Common Shares. The following summary does not purport to be complete and reference is made to the articles and amended articles of incorporation available under the Corporation's SEDAR profile at www.sedar.com, for a complete description of these securities and the full text of their provisions:

- Dividend Rights – Subject to any other shares of AlgaeBio ranking senior to the Common Shares, from time to time, with respect to the payment of dividends, holders of Common Shares shall be entitled to receive, if, as, and when declared by the Board of Directors, such dividends as may be declared thereon by the Board of Directors.

- Voting Rights – The holders of the Common Shares are entitled to receive notice of, attend, and vote at any meeting of shareholders of AlgaeBio, except those meetings where only the holders of another class or series of shares are entitled to vote separately as a class or series. The Common Shares carry one vote per share. Holders of Common Shares do not have cumulative voting rights with respect to the election of directors and, accordingly, holders of a majority of the Common Shares entitled to vote in any election of directors may elect all directors standing for election.

- Rights Upon Dissolution or Winding Up – In the event of the voluntary or involuntary liquidation, dissolution, or winding up of AlgaeBio, or any other distribution of its assets among its shareholders for the purpose of winding up its affairs, holders of Common Shares shall be entitled, subject to the preferences accorded to any other shares of AlgaeBio ranking senior to the Common Shares, from time to time, with respect to payment on such a distribution, to share equally, share for share, in the remaining property of AlgaeBio.

- Other Rights – The Common Shares do not carry any pre-emptive, subscription, conversion, or exchange rights nor any redemption, retraction, purchase for cancellation or surrender, sinking, or purchase fund provisions or provisions permitting or restricting the issuance of additional securities or any other material restrictions. There are no provisions requiring a security holder to contribute additional capital.

**Preferred Shares**

The Preferred Shares will be issuable at any time and from time to time in one or more series. The Board of Directors will be authorized to fix before issue the number of, the consideration per share of, the designation of, and the provisions attaching to the Preferred Shares of each series, which may include voting rights, the whole subject to the issue of a certificate of amendment setting forth the designation and provisions attaching to the Preferred Shares or shares of the series. The Preferred Shares of each series will rank on a parity with the Preferred Shares of every other series and will be entitled to preference over the Common Shares and any other shares ranking junior to the Preferred Shares with respect to payment of dividends and distribution of any property or assets in the event of the Corporation's liquidation, dissolution or winding-up, whether voluntary or involuntary. If any cumulative dividends (whether or not declared), non-cumulative dividends declared or amounts payable on a return of capital are not paid in full, the Preferred Shares of all series will participate rateably in accordance with the amounts that would be payable on such Preferred Shares if all such dividends were declared and paid in full or the sums that would be payable on such shares on the return of capital were paid in full, as the case may be.

**Options**

AlgaeBio has reserved 8,387,500 Common Shares that may be issuable upon exercise of stock options granted pursuant to the Corporation's stock option plan.

**Warrants**

AlgaeBio currently has warrants outstanding to purchase 2,056,578 Common Shares.

During the year ended December 31, 2008, Algae Nevada issued 62,455 share purchase warrants, entitling the holder to one share of common stock for each warrant, with a stated exercise and weighted average exercise price of US$1.00, with a 10-year life and are immediately exercisable. These warrants will expire unless exercised prior to October 14, 2012. Pursuant to the Merger Transaction, Algae Nevada issued 1,274,123 share purchase warrants at an exercise price of $0.35 and an expiration date of October 14, 2012. Upon completion of the Merger Transaction all warrants issued by Algae Nevada were converted into warrants of the Corporation on the same terms.

In September 2011, AlgaeBio issued 720,000 share purchase warrants to certain consultants that provided services to the Corporation during the Merger Transaction and Prospectus Offering at an exercise price of $0.30 for a period of five years from the date of issuance.

## DIVIDENDS

The Corporation has not declared or paid any dividends on the Common Shares to date. The payment of dividends in the future will be dependent on the Corporation's earnings, financial condition and such other factors as the Board of Directors considers appropriate.

## MARKET FOR SECURITIES

The Common Shares are listed for trading on the TSX-V under the symbol "ABV". The following table sets out the price range for, and trading volume of the Common Shares as reported by the TSX-V for each month during the financial year ended September 30, 2011:

| Period | High (CDN$) | Low (CDN$) | Volume |
|---|---|---|---|
| October (2010) | N/A | N/A | 0 |
| November (2010) | N/A | N/A | 0 |
| December (2010) | N/A | N/A | 0 |
| January (2011) | N/A | N/A | 0 |
| February (2011) | N/A | N/A | 0 |
| March (2011) | N/A | N/A | 0 |
| April (2011) | N/A | N/A | 0 |
| May (2011) | 0.40 | 0.22 | 3,321,357 |
| June (2011) | 0.49 | 0.36 | 1,351,706 |
| July (2011) | 0.42 | 0.33 | 142,591 |
| August (2011) | 0.40 | 0.26 | 465,343 |
| September (2011) | 0.39 | 0.25 | 770,560 |

## PRIOR SALES

During the financial year ended September 30, 2011, the following securities of the Corporation that are not listed or quoted on a marketplace were granted:

| Description | Number of Securities | Price per Security | Date of Issuance |
|---|---|---|---|
| Options to acquire Common Shares | 2,875,000 | $0.20[(1)] | April 13, 2011 |
| Options to acquire Common Shares | 5,800,000 | $0.24[(1)] | May 25, 2011 |
| Warrants to acquire Common Shares | 720,000 | $0.30[(2)] | August 9, 2011 |

**Notes:**

(1) Represents the exercise price per stock option.

(2) Represents the exercise price per warrant

## ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTIONS ON TRANSFER

The following table sets out the number of Common Shares held in escrow or that are subject to a contractual restriction on transfer as of September 30, 2011.

| Designation of Class | Number of securities held in escrow or that are subject to a contractual restriction on transfer | Percentage of class |
|---|---|---|
| Common Shares | 16,624,966[(1)] | 24.3% |

**Notes:**

(1) These shares are held in escrow by Valiant. 2,770,828 of these shares will be released from escrow on each of the following dates: November 5, 2011, May 5, 2012, November 5, 2012, May 5, 2013, and November 5, 2013. The remaining 2,770,826 shares will be released on May 5, 2014.

## DIRECTORS AND EXECUTIVE OFFICERS

The following table provides the name and the province or state and country of residence of each of the directors and executive officers of the Corporation, their position in the Corporation, their period of service as a director and their principal occupation during the previous five years.

| Name and Province or State and Country of Residence | Position with AlgaeBio | Director Since | Principal Occupation for Previous Five Years |
|---|---|---|---|
| Andrew D. Ayers<br>Clay Springs, Arizona, USA | President, Chief Executive Officer and Director | April 13, 2011 | CEO and Founder of Algae Nevada (2007 - 2011). Prior to starting Algae Nevada, Mr. Ayers worked for the Arizona Game and Fish Department, from Nov. 1992 – Oct. 2004. He has 25 years of algae culture and control experience. He received his Masters Degree from the University of Hawaii and his Bachelors Degree from Arizona State University. |
| Robert J. Thompson[1]<br>Scottsdale, Arizona, USA | Chief Financial Officer, Corporate Secretary and Director | January 4, 2008 | Since December, 2002, President of Corpus Investments Inc., a private holding company that manages investments in a wide range of enterprises. Previously, until 2000, Mr. Thompson served as Chairman of the Board of C.M. Oliver Inc., a Canadian regulated, publicly traded investment dealer/broker, practiced as a Chartered Accountant and Certified Management Consultant, and practiced as a Senior Partner of Peat Marwick & Partners, Woods Gordon/Clarkson Gordon, and Ernst & Whitney, from 1966 to 1988. |
| Kevin Blanchette<br>Calgary, Alberta, Canada | Director | January 4, 2008 | Managing partner of Evolve Capital Group Inc., a private investment corporation since March 2006. Previously, Mr. Blanchette worked as a senior manager with the Solicitor General and Justice Division of the Government of Alberta from 1995 to 2004. Mr. Blanchette also served as Director (2004-2006), Chief Operating Officer (2004-2005), and President and Chief Executive Officer (2005-2006) of International Health Partners Inc., a publicly traded dental and medical practice management company listed on the Exchange. |

| Name and Province or State and Country of Residence | Position with AlgaeBio | Director Since | Principal Occupation for Previous Five Years |
|---|---|---|---|
| Laurence M. Luke[(1)]<br>Scottsdale, Arizona, USA | Director | April 13, 2011 | Managing General Partner of the Salt River Capital Group, LLC (1997 to present), a private equity company, that has invested in medical equipment and construction materials industries. Mr. Luke consults to businesses on U.S. taxation issues. He acts as a Plan Administrator for the U.S. Bankruptcy Court. He serves as a director of several private companies and was a director InNexus Biotechnologies Inc. and chair of its audit committee (2006 – 2009). Mr. Luke has been a practicing attorney (1967 – present) and president of various successful private companies. |
| Jody Stachiw[(1)]<br>Calgary, Alberta, Canada | Director | January 3, 2008 | Manages various independent business ventures. Previously, Mr. Stachiw served as President, Chief Executive Officer, and Director (2006-2009) of Ridgeline Energy Services Inc., a publicly traded company on the Exchange. Prior to this, Mr. Stachiw served as President and Chief Executive Officer of SDA Technologies Ltd., the company he founded to provide well test data acquisition services and technology to the oil and gas industry, from 1997 until June 2006, when SDA Technologies Ltd. became a publicly traded company under the name Ridgeline Energy Services Inc. |

**Notes:**
(1) Member of the Audit Committee.

All of the Corporation's directors' terms of office will expire at the earliest of their resignation, the close of the next annual shareholder meeting called for the election of directors, or on such other date as they may be removed according to the ABCA. The Corporation's officers are appointed by and serve at the discretion of the Board of Directors.

As at the date of this Annual Information Form, the directors and officers of the Corporation, as a group, beneficially owned, or controlled or directed, directly or indirectly, 12,094,866 Common Shares representing approximately 17.7% of the issued and outstanding Common Shares. The information as to the number of Common Shares beneficially owned, not being within the knowledge of the Corporation, has been furnished by the respective directors and officers of the Corporation individually.

### Cease Trade Orders

To the knowledge of the Corporation, no director or executive officer of the Corporation (nor any personal holding company of any of such persons) is, as of the date of this Annual Information Form, or was within 10 years before the date of this Annual Information Form, a director, chief executive officer or chief financial officer of any company (including the Corporation), that: (a) was subject to a cease trade order (including a management cease trade order), an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, in each case that was in effect for a period of more than 30 consecutive days (collectively, an "**Order**"), that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or (b) was subject to an Order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

**Bankruptcies**

To the knowledge of the Corporation, no director or executive officer of the Corporation (nor any personal holding company of any of such persons), or shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation: (a) is, as of the date of this Annual Information Form, or has been within the 10 years before the date of this Annual Information Form, a director or executive officer of any company (including the Corporation) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (b) has, within the 10 years before the date of this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

**Penalties or Sanctions**

To the knowledge of the Corporation, no director or executive officer of the Corporation (nor any personal holding company of any of such persons), or shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation, has been subject to: (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

**Conflicts of Interests**

The directors are required by law to act honestly and in good faith with a view to the best interests of the Corporation and to disclose any interests that they may have in any project or opportunity of the Corporation. If a conflict of interest arises at a meeting of the Board of Directors, any director in a conflict will disclose his interest and abstain from voting on such matter.

To the best of the Corporation's knowledge, and other than disclosed herein, there are no known existing or potential conflicts of interest among the Corporation, its promoters, and its current or proposed directors and officers as a result of their outside business interests, except that certain of the current and proposed directors and officers serve as directors and officers of other companies, and therefore it is possible that a conflict may arise between their duties to the Corporation and their duties as a director or officer of such other companies.

## PROMOTER

Andrew D. Ayers, Kevin Blanchette and Jody Stachiw, may be considered to be promoters of the Corporation, in that they took the initiative in founding and organizing Algae Nevada and the Corporation and in the re-organization of the Corporation pursuant to the Merger Transaction.

As of the date of this Annual Information Form, Mr. Ayers beneficially owns or exercises control or direction over, directly or indirectly, 9,686,173 Common Shares, representing 14.2.% of the issued and outstanding Common Shares. Mr. Ayers receives a salary and is eligible to receive annual short-term incentives in the form of bonuses and the grant of stock options pursuant to the compensation policy of the Corporation for acting in the capacity of President and Chief Executive Officer of the Corporation.

As of the date of this Annual Information Form, Mr. Blanchette beneficially owns or exercises control or direction over, directly or indirectly, 103,125 Common Shares, representing 0.2% of the issued and outstanding Common Shares. Mr. Blanchette may in the future receive cash compensation and is eligible to receive annual short-term incentives in the form of director fees and the grant of stock options pursuant to the compensation policy of the Corporation for acting as a director of the Corporation.

As of the date of this Annual Information Form, Mr. Stachiw beneficially owns or exercises control or direction over, directly or indirectly, 623,125 Common Shares, representing 0.9% of the issued and outstanding Common Shares. Mr. Stachiw may in the future receive cash compensation and is eligible to receive annual short-term incentives in the form of director fees and the grant of stock options pursuant to the compensation policy of the Corporation for acting as a director of the Corporation.

## LEGAL PROCEEDINGS AND REGULATORY ACTIONS

The Corporation is not or was not a party to, nor are or were any of the Corporation's assets subject to, any material legal proceedings since October 1, 2010, nor to the Corporation's knowledge are any such proceedings contemplated.

Since incorporation, there have not been any penalties or sanctions imposed against the Corporation by a court relating to provincial and territorial securities legislation or by a securities regulatory authority, nor have there been any other penalties or sanctions imposed by a court or regulatory body against the Corporation, and the Corporation has not entered into any settlement agreements before a court relating to provincial and territorial securities legislation or with a securities regulatory authority.

## INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as set forth herein or as previously disclosed by the Corporation, there are no material interests, direct or indirect, of directors, executive officers, any shareholders who beneficially own, directly or indirectly, more than 10% of the outstanding Common Shares, or any known associates or affiliates of such persons, in any transaction within the last three financial years or in any proposed transaction which has materially affected or would materially affect the Corporation, or any of its subsidiaries.

## AUDITORS, REGISTRAR AND TRANSFER AGENT

The Corporation's auditors are Hein & Associates LLP, Certified Public Accountants, at its offices located at Suite 4000, 1999 Broadway, Denver, Colorado 80202.

The Corporation's transfer agent and registrar is Valiant, located at Suite 310, 606 - 4 Street SW, Calgary, Alberta T2P 1T1.

## MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the only material contracts the Corporation has entered into prior to the date of this Annual Information Form which can reasonably be regarded as presently material are:

1. The License Agreement, described under the heading "*Business of the Corporation – General – The Licensed Intellectual Property*".

2. The Purchase and Distribution Agreement with GHT provides that GHT will purchase, and has the exclusive right to purchase, all of the Omega-3 fatty acid oil, whole algae powder, or algae meal that AlgaeBio can produce, targeted for use in the nutraceutical or food additive industries.

AlgaeBio will receive between US$90 and US$100 per kilogram purchased by GHT, based on the total volume purchased by GHT in a given month. The continuity of the exclusive right to purchase is subject to GHT satisfying or exceeding monthly minimum purchase volume thresholds. The agreement does not extend to GHT any rights to purchase AlgaeBio's production targeted for use in the cosmeceutical or pharmaceutical industries, or for use in any industries or endeavours other than the nutraceutical and food additive industries. However, GHT has been provided with the first right of proposal to purchase product targeted for use in the cosmeceutical and pharmaceutical industries. The prices to be paid to AlgaeBio are "at market," and are fixed for the first five years of the agreement, and thereafter are adjusted every two years with reference to a basket of three producer price indices. The agreement is for 10 years, commencing October 8, 2010, and is renewable for an additional 10 years.

3. The Technical Services Agreement with an international grower and processor was for one year ending June 30, 2011, as a field-test phase, and for two additional one year terms, as a commercialization phase. The agreement formalized the commercial understandings supporting a field test to determine the efficacy of the BioMax Program process, and provides the basic understandings that would underpin the potential subsequent commercialization phase. The field test usage of the BioMax Program was limited to 600 acres. The customer was required to pay a fixed services fee of $8 per acre per month for the fields subject to testing. The customer was also required to provide all required electricity and water, at their cost. During the commercialization phase in years two and three, the extent to which the BioMax Program process could be used under the terms of this agreement was limited to 4,550 acres and the service fee per acre per month was subject to negotiation. The agreement did not bestow any rights of exclusive use to the customer or any other material rights other than those described above. Efficacy was demonstrated in yield per acre increases and chemical content improvements in the test crops. The agreement was terminated by the grower on December 29, 2011.

4. The Agency Agreement dated October 7, 2010 with respect to the Prospectus Offering between the Corporation, Algae Nevada and Macquarie Private Wealth Inc. described under the heading "*General Development of the Business – History of the Corporation – Incorporation to Completion of Merger Transaction – The Merger Transaction and Prospectus Offering*", and in the long form prospectus dated March 29, 2011 under the heading "*Plan of Distribution*".

5. The Merger Agreement dated January 28, 2011, as amended, between the Corporation, Algae Nevada and ABI described under the heading *"General Development of the Business – History of the Corporation – Incorporation to Completion of Merger Transaction – The Merger Transaction and Prospectus Offering*", and in the long form prospectus dated March 29, 2011 under the heading "*The Proposed Transaction – Terms of the Merger Agreement*".

6. Copies of the foregoing material contracts have been filed by the Corporation on SEDAR and are available online at www.sedar.com.

## INTERESTS OF EXPERTS

There is no person or company whose profession or business gives authority to a statement made by such person or company and who is named as having prepared or certified a report, valuation, statement or opinion described or included in a filing, or referred to in a filing, made under NI 51-102 by us during, or related to, the Corporation's most recently completed financial years other than Hein & Associates LLP, auditors of the Corporation and MNP LLP.

Hein & Associates LLP has advised that it is independent of the Corporation within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Canada.

## ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans is contained in the Corporation's information circular dated September 19, 2011. Additional financial information is contained in the Corporation's audited financial statements and management's discussion and analysis for the year ended September 30, 2011. Additional information relating to AlgaeBio, the Merger Transaction and the Prospectus Offering is available on SEDAR at www.sedar.com.