

**GULF BIOMEDICAL CORPORATION. (GBIC - OTC:PK)**

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Website: <http://www.herbalstore.us>  
 Exchange: US-OTC Pink Sheets  
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Recent Price: **\$0.330**  
 Target Price: **\$0.500**

**SPECULATIVE NEUTRAL RATING**

**Main Headquarters**

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*Natural Remedies to Battle Baldness, Impotence & Depression*  
**Company Overview**

**Gulf Biomedical (OTC PK: GBIC) is focused on providing herbal products which are safe, reliable and backed by quality customer service. Currently, Gulf Biomedical is targeting four high revenue generating segments, namely Erectile Dysfunction (ED), Hair Restoration, Anti-Depression and Weight Loss.**

**Gulf Biomedical Corporation.**  
 (all figures in Millions)

52 Week Hi/Lo Range	4.00/0.05
Fiscal Year End	NA
Shares Outstanding (2/22/2006)	17.0
Float (approximately)	1.70
Share price (02/06/2006)	0.33
Market Capitalization	5.6
Average Volume (3 months)	NA
Insider Ownership	NA
Institutional Ownership	NA
Enterprise Value	NA
Total Debt (09-30-05)	NA
Total Cash (09-30-05)	NA

6/30/2005 6/30/2006

	FY2006 E	FY2007 E
Earnings Per Share (EPS)	0.00	0.020

Book Value (\$/share)

	FY2006 E	FY2007 E
Total Revenue	1.320	6.000
Cost of Sales	0.849	3.858
Gross Profit/Loss	0.471	2.142
Operating expenditures	0.462	1.800
Net Loss /Profit	0.009	0.342
Tax Expense	0.000	0.000
Net Income	0.009	0.342

NA = Not applicable/Not Available.  
 A = Actual Reported figures E = Estimates

Balance Sheet & Financial Statement Extracts

Current Assets	NA
Current Liabilities	NA
Total Assets	NA
Total Shareholders deficit	NA
Tax Loss Carryforwards	NA

Capital Structure

Authorized Common Stock	NA
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- The company sells 3 herbal or natural treatments that address the most common medical conditions, such as **hair-loss, male erectile dysfunction (ED) and depression**, which are common ailments presiding on a global scale. A fourth product for the **weight loss market** will be added soon.
- More than **30 million American men face erectile dysfunction each year** or roughly one quarter of all men in the United States by the time they reach 65 years of age. GBIC offers an **all-natural product** known as **LoveMagic™** designed to **give men an option over drugs such Viagra** which has come under fire for its potential serious side-effects such as blindness.
- Distributorship and Wholesale programs are being created** and will be available for companies shortly that will help with creation of product awareness amongst consumers.
- The Hair Restoration market generates \$4 billion in sales in the US each year.** An **estimated 60 million American men and women are losing - or have already lost - their hair.** Most of them would go to great lengths to have it back. **Most competing products are labeled with small print stating that their product doesn't work for everyone or doesn't work on certain conditions.**
- HairMagic™ scored a 100% success rate in its treatment of 70 hair loss patients.** After only 4 weeks, each of the 70 people reported the sight of quarter-inch tendrils of new hair growing on their heads where none grew before.
- HairMagic™ expects to sell 100,000 packets of the treatments in its initial campaign drive by Attack Marketing, a reputable Texas sales and promotion firm, **generating an income of almost \$6 million.**
- More than 91 million people within the United States take herbal supplements** to improve their health. This number is large due to the significant and even fatal side-effects of well known drugs, which were once approved by the (FDA) Food and Drug Administration.
- According to USNews.com, **approximately 18.8 million American adults suffer from a depressive disorder.** CNN also addressed this global problem and sited **depression as the fourth costliest medical condition in the world.**
- The company intends to launch 3 additional complimentary products in 2006. These products are **SlimMagic™** to assist with weight-loss, **Mem'ryMagic™** to fight against memory loss and **YouthMagic™** to retard ageing. This strategy will give GBIC a total of 6 products in its line that grants them greater opportunity to deliver to shareholders.
- The company projects year over year revenues of **\$1,320,000 for LoveMagic™ which is an herbal erectile dysfunction pill and HairMagic™ which is an herbal hair restoration pill. Monthly revenue for the two products would be approximately \$110,000.**
- We expect the company to start generating revenues in FY 2006 and for revenues to gain traction in FY 2007 as the company rolls out plans to bring 3 additional products to the market before the end of **2006 to expand their total "Magic" line to 6 all-natural products.** We have **initiated** the security with a **speculative neutral rating** despite our optimistic view on sales and profitability on a 24 month basis, **due to the lack of financial disclosure that is one of our key criteria to initiate a higher rating.** Based on our discounted valuation methodology on FY 2007 EPS forecast we set a 12 month target for Gulf BioMedical Corp. of **45c per share.** See **INVESTMENT THESIS & RECOMMENDATION** for more in-depth discussion (Page 6-7)

## THE COMPANY

Gulf Biomedical Corporation (OTC PK:GBIC) is a 16-year-old Houston-based laser research and manufacturing firm who changed its nature of business in October 2004, when it **completed the acquisition from David Beard/Traderite, LLC of the product line "Special Care, Health and Hair."**

The purchase included all assets, liabilities, copyrights, patent rights and inventories related to the hair-growing supplement and associated product developed by David Beard/Traderite, LLC. "Special Care, Health and Hair" is a vitamin supplement developed by Beard in 2002 after a series of formulated chemical studies on human subjects conducted with pharmaceutical grade components. In late January 2003, the dosage was standardized as a two-tablet formula intended to stimulate hair growth and repair from common hair loss maladies such as Androgenetic Alopecia (AGA), Alopecia Areata, Congenital Atrichia and Trichotillomanis. **R&D on this product eventually gave birth to its Hairmagic™** groundbreaking product to restore hair growth.

On February 7, 2006 the company announced the unveiling of its new website [www.herbalstore.us](http://www.herbalstore.us). This new online herbal shopping center features Gulf Biomedical Corp. first two products in a long line of "Magic" all natural remedies. HerbalStore.us is a health and herb store dedicated to providing its customers herbal remedies to help naturally restore the human body. The website is intended to be host to some of the finest natural health supplements and products, high quality service and offer low cost worldwide shipping.



## INDUSTRY & OPPORTUNITY

In today's fast paced environment, companies are seeking quick remedies to improve the health and well being of individuals as healthcare costs escalate and have become a modern day cancer, wreaking havoc in both corporate and consumer budgets. The cost of synthetic chemically derived drugs have risen dramatically in recent years and have frequently been known to have detrimental side effects as evidenced by recent class action lawsuits against Merck, for Vioxx and other drugs.

**Based on these trends, the global population is increasingly turning to safe, effective, low-cost natural alternatives that support individual health and well being.** Herbalstore.us is determined to find you the most effective alternative approaches to health and well being. In many areas of the world, life expectancy is equal and in some regions greater than in the United States. Those populations have been using formulated herbal remedies almost exclusively for centuries. Natural herbal formulas are a mainstay of many national health systems and are regularly prescribed by physicians. Gulf BioMedical has determined the advantage of herbal supplements as compared to pharmaceutical drugs, is that herbal supplements don't exact a heavy toll for the beneficial healing properties they claim to have. They have no side effects and are far less expensive. The company cites that **some of the major pharmaceutical firms are marketing their own herbal supplements in order to gain share in the growing herbal industry.**

The market for the products offered by Gulf Biomedical Corporation is huge and initially low levels of penetration into one or more of these markets can translate into a rising share price that can enable the company to acquiring the financial resources needed to make a start-up business prosper and grow. For instance, approximately 65% of males between the ages of 21 and 65 will suffer from some kind of baldness or significant hair loss. Statistics also demonstrate that 45 percent of women between the ages of 35 and 65 will be afflicted with excessive hair loss. The annual market **for hair loss products exceed the \$4 billion mark with 60 million men and woman in the US** alone suffering from this problem.

**HairMagic™** sells for \$2/day – \$60 for a 30-day supply or \$720 for a year supply. If in the GBIC is only able to market its product effectively to only 1/10th of 1% - or 60,000 of those 60-million potential customers, it can achieve annual sales revenues of \$43.2 million. Assuming a gross margin per sale of 35%, GBIC could generate annual earnings of nearly \$15.1 million. If this is translated back and cognizance is taken of its tiny float (less than 2 million), it is clear that explosive potential does exist for GBIC shareholders if market penetration is achieved.

GBIC is launching a campaign to sell **HairMagic™** by email. There is a limited inventory of the product to fill initial orders. The first mailing will go out to 1-million consumers. It will make an offer of the product along with the 100% "no conditions" guarantee. A new manufacturer has been setup to turn out the patented formula Hairmagic™ in large quantity. While initial marketing will be by email, direct mail advertising and eventual nationwide distribution via retail stores will be undertaken. On February 21, 2005 the company announced the launch of a nationwide distributor program for their herbal restoration products. This program is available for individuals and companies. The company will continue to create and release exclusively all-natural remedy products throughout 2005 and 2006 with the anticipation of global manufacturing and distribution. These products will help drive in month to month residual revenues. In the section that follows, we include numbers that give the reader **an idea of the tremendous size and scope of 2 other major markets that GBIC will target namely ED (30 million men in US suffering from this condition and the anti-depression market (18.8 million American adults suffer from a depressive disorder) and the reader will appreciate the opportunity that exists for company's that can deliver valuable products to adress the demand in these markets.**

*See Appendix A-1 for Analyst Certification and Important Disclosures.*

## HERBAL PRODUCTS

### LOVEMAGIC™

LoveMagic is an all-natural no-known side effect pill designed to **fight against Erectile Dysfunction (ED)** or impotence and strengthen the sexual performance in men. For maximum results, this pill needs to be taken on a daily basis. This all natural pill was designed to give men an option over drugs such Viagra, which has been known to have serious side-effects such as blindness and other side-effects associated with use of **Cialis and Levitra**. Currently, **over 30 million American men face erectile dysfunction (ED)** each year or roughly one quarter of all men in the United States by the time they reach 65 years of age. This herbal supplement was created to help men achieve a long lasting erection.

The product retails for \$55 for a 30 day supply and contains Chrysin and Vitamin B-12.

## Hair Magic™

### HAIRMAGIC™

HairMagic is the second product which is now available for distributors. **HairMagic is an all-natural no known side-effect aid for hair restoration and growth.** It is a **breakthrough product that is easy, painless and inexpensive.** This product is designed to provide individuals an option over hair replacement surgery which leaves a long scar on your scalp, is costly and has no guaranteed result to work in all cases.



This product also gives individuals a choice over drugs such as **Propecia or Rogaine**, which are known to have **sexual side-effects**, while providing little or no results. Currently, Gulf Biomedical is receiving an increasing number of new and renewal orders for HairMagic™. **The Hair Restoration market generates \$4 billion in sales per year.** Statistically, approximately 65% of males between the ages of 21 and 65 will suffer from some kind of baldness or significant hair loss. Statistics also demonstrate that 45 % of women between the ages of 35 and 65 will be afflicted with excessive hair loss. This equates to a growing market with over 60 million men and women in the US that suffer from this problem and would like to consider effective, reliable treatment or medicines to tackle their growing baldness and improve their appearance. Gulf Biomedical is confident that Americans will open their arms to **HairMagic™** for some very sound reasons. **HairMagic™** is easy to take and comes in 2 bottles of capsules. No dangerous drugs with their side effects. The ingredients in **HairMagic™** are all natural and totally safe. Take one tablet of each bottle with water daily.

**Tests indicate that after 4 weeks of pill-taking, the customer starts to see the little ¼-inch shoots of hair rising from the scalp where nothing grew before.** And this was the customer's own hair – not some artificial substance. The product retails for less than \$2 per day (\$59 for 30 day supply) and is **sold with a guarantee of results**, or else the customer will be refunded 100% of the purchase price paid. Primary active ingredients are **Biotin and Saw Palmetto**. The secret of HairMagic™, lies in the following unique 2-step approach. Underlying the product's development was a single theme that Hair loss is not a normal procedure, heredity notwithstanding. When it does occur, there is always a reason, namely the health of the individual. That's why there are two capsules in the treatment program. **The first capsule is to restore the health of the individual, and to create conditions under which the second capsule induces natural hair growth.**



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## ANTI-DEPRESSION (UpsideMagic™)

Millions of people suffer from depression everyday and face the unfortunate side-effects of available commercial drugs. Gulf Biomedical has developed an all-natural no known side-effect product specially designed to help restore the normal optimistic view on life for the general public. One of the **ingredients in this product is a well-known herb St. John's Wort, or Hypericum perforatum.** Over 25 double blind controlled trials have demonstrated that the herb possesses strong healing properties similar to those of popular pharmaceutical drugs **Prozac, Paxil and Zoloft. Unlike these well known drugs, Gulf Biomedical has been able to combine compounds which are virtually all-natural and contain no known side-effect.** Scientists **believe St. John's Wort acts as an inhibitor of serotonin re-uptake.** Even conservative members of the medical profession now recognize the effectiveness of this herbal substance for battling depression. In addition to St. John's Wort, at least four other powerful herbal substances will be combined in a formula aimed at giving users a truly safe, effective antidote to common depression.

According to USNews.com, **approximately 18.8 million American adults suffer from a depressive disorder.** CNN also addressed this global problem and sited **depression as the fourth costliest medical condition in the world.** Depression has frequently been known to lead to physical pains, fatigue, hopelessness, suicide and many other ailments.

Gulf BioMedical Corporation **reported rapid progress in the development of a new all-natural anti-depression product in September 2005,** which will be sold under the name **UpsideMagic™.** This new product contains ingredients known to reduce depression and brighten the outlook of its users. The treatment is scheduled to hit the market in the coming weeks.

Gulf BioMedical herbalists urged caution in the use of the new product, citing both the powerful nature of its ingredients, and the multiple meaning of the term, "depression." The developers of Gulf BioMedical's anti-depression product distinguished between 2 kinds of depression. On the one hand, there is the kind of sadness most everyone feels at one time or another in the course of everyday life - the 'blues' in other words. This type of depression can linger and is challenging to shake off. Gulf-BioMedicals all-natural product will be compounded to deal with this typical form of depression and restore a normal optimistic view of life on an everyday basis. The second kind, namely clinical depression, stems from a chemical imbalance in the brain, calls for treatment by a medical practitioner. Even so, certain herbal remedies may be useful in treating even clinical depression.

## FINANCIALS

**The company has not submitted SEC filings containing financial data, nor has it made meaningful disclosure of financial affairs to shareholders.** Given the lack of information accessible, we will use this section to provide some comments on the outlook.

Recent guidance by Mr. Stephen Taylor provided an optimistic outlook for a very strong 2006 or GBIC. The two herbal products (**Hairmagic™ & Lovemagic™**) already brought to market have gained significant interest from customers and distributors. In the coming weeks GBIC will unveil 2 additional herbal products, in high revenue generating segments, which are weight loss and depression. Besides the national distributor program for individuals and businesses already launched the company is now interviewing potential distributors to extend the current sales platform.

The company projects year over year revenues of **\$1,320,000 for LoveMagic™, which is an herbal erectile dysfunction pill and HairMagic™, which is an herbal hair restoration pill. Monthly revenue for the two products would be approximately \$110,000.** GBIC has ownership of these products and no royalty agreements. **Management anticipates significantly higher revenue when they release their already completed anti-depression pill known as Upside Magic™** and soon to be released Weight Loss pill, which is still unnamed. All revenue projections are based on the company's aggressive plans of market saturation through **e-mails, distributors, radio, infomercials, spotlights on news channels.**

*We have set out our revenue and profit expectations for GBIC for FY 2006 and FY 2007 in our table located on Page 1 of this report. We have relied on management comments to a large degree taking them at face value and making certain cost assumptions to arrive at these numbers. For FY 2006 we have used the revenue forecast of \$1.32 million given the existing projections cited in the paragraph above. For FY 2007 we have assumed revenues to improve to AT LEAST \$6 million, given that HairMagic™ expects to sell 100,000 packets of the treatments in its initial campaign drive by Attack Marketing, a reputable Texas sales and promotion firm that can generate almost \$6 million. We highlight that these revenue forecasts will be too conservative the company is able to achieve near-term market penetration with all six of its products. Furthermore we have used a 35% gross profit margin assumption and pitched our operating and SG&A expenses for GBIC for FY 2006 and FY 2007 at 35% and 30% of gross revenues respectively. Assuming no tax expense for both FY 2006 and FY 2007 and using a weighted average shares outstanding count of 17 million; we arrive at breakeven EPS for FY 2006 and 2c positive EPS for FY 2007. These EPS numbers form the crux of our valuation methodology discussed on Page 6 and Page 7, and the setting of our 12 month target price.*

**Noteworthy financial and per share statistics are listed in the table found on page 1 of this report.**

*See Appendix A-I for Analyst Certification and Important Disclosures.*

## Liquidity and Capital Resources

No information was readily available to enable us to review the cash and cash equivalent position of the company at the time of writing of this report. In an interview with Mr Stephen Taylor the Director of Investor relations, **he expressed the view that the company has sufficient resources and is covered to conduct its operational plans for the coming year** and management will manage the existing resources in a prudent fashion, making use of less costly marketing avenues that will be a better way to manage shareholder capital.

## RISK FACTORS /CONCERNS

The business model, and longer term consistency of revenue and income potential, remain uncertain and is not fully proven. Gulf Biomedical is **substantially dependent on the expertise of its management and directors, consultants** the loss of which could materially adversely affect future anticipated results. The company is still considered to be early in **development stage** and revenues generated to date, is negligible. The company may not be able to generate or obtain sufficient funds to operate its business which, could harm results and force the company to curtail or cease plans for expanding operations. There can be **no assurance the company will be successful in its effort to secure additional financing** to support operations that will necessitate achievement of near and medium term goals.

Trading in the shares will continue to be subject to major fluctuations for the foreseeable future. The stock is thinly traded at prices below \$1.00 and selling of small positions could have a negative impact on the share price in absence of sufficient liquidity. The reverse is true if one or more large investors decide to acquire a block of GBIC shares that would result in demand outstripping supply and result in an upward squeeze in the price given the scant liquidity and daily trading volume.

**We caution that historical volume activity on GBIC has been noticeably light and we are unable to determine if trading volumes to will improve in the coming months with any degree of certainty.** Major dilution of common stock can occur if the company issues large blocks of common stock or convertible debt is converted/warrants exercised into common stock, that can negatively impact on the value of the shares either theoretically, or if sold outright in the open market. NASD and SEC Regulations covering rules on Penny Stocks apply for GBIC, subjecting NASD broker-dealers to additional sales practice and disclosure requirements.

GBIC **current conduct and operations are in compliance with regulatory procedures** but, there can be no assurance that the US Government of FDA will not impose new, stricter regulations or fresh interpretations of existing regulations that would require additional expenditures for companies selling herbal supplements and treatments to remain in full compliance. The remote possibility exists that new legislation or regulations may be adopted or that the enforcement of existing laws could become more stringent, either of which may have a significant impact on operations or the customers' access to use these herbal remedies. Consumer patterns can change and large well capitalized drug companies offering chemical based medicines may introduce new medicines from current pipelines that receive FDA approval, that lead to consumers becoming less interested in more natural remedies, swayed by an implied FDA endorsement.

The company faces stiff competition in the weight loss and nutritional product market from listed and private companies, such as **Herbalife, NBTY, Nature's Sunshine, Alticor, GNC Corporation, Perrigo Co., The Vitamin Shoppe and many others.** There can be no assurance that the company will be able to **achieve a distinction or competitive edge over these rival companies** and prescription based therapies and the vast majority of these competitors are also better capitalized to fend off new competition. The attempt to make a clear impact and inroad into the hair loss market may be stifled by strong brand recognition of products such as Rogain (Pfizer product) and Propecia, Avodart, Nizoral etc. **Estimates of revenues that can be earned in the future and all forward projections made involve variable factors and assumptions, and does hinge to a large degree on the success of its marketing plan and distributor relationships, the hits and direction of traffic to its online website herbalstore.us for e-commerce and selling agreements on wholesale level. The success of the marketing campaign and creation of consumer awareness is both vital and critical for success in both the near and medium term.**

## MANAGEMENT

### Don West – President & CEO

Don West encompasses over 30 years of experience operating and managing start-ups which rely heavily on sales. 20 of the 30 years Don not only founded start-up companies but aggressively pursued inbound and outbound sales orders while managing a growing sales team.

As President of Gulf Biomedical, Don is now responsible for managing all sales, overseeing a nationwide distributor program, establishing a leading online herbal presence for sales and information, bringing new, safe no known side-effect herbal products to market, pursuing merger and acquisitions and ensuring a high Return on Investment for all products.

### Stephen Taylor – Director of Investor Relations

*See Appendix A-I for Analyst Certification and Important Disclosures.*

**Jack Burney - Senior Consultant for Marketing and Product Development**

Jack Burney has been Staff Herbalist and Marketing Consultant to Gulf Biomedical Corporation for the past year and a half. He is a member of the American Botanical Society. In addition to his knowledge of herbal supplements, Jack is a professional writer of news, features, financial reports, and promotional projects for major corporations for most of his career. This experience in the herbal market, connections with news firms and ability to write quality marketing articles and pieces will be highly valued by Gulf Biomedical.

Jack became fascinated with herbal supplements when he covered the Complementary and Alternative Medicine Conference at the University of Texas Health Science Center in Houston 15 years ago for a medical magazine. He subsequently began an intensive study of the science of herbal supplements, acquiring a broad knowledge and a sizeable library on the subject.

**INVESTMENT THESIS AND RECOMMENDATION**

Our analysis suggests that **Gulf Biomedical Corp.** is an interesting speculative play among micro-cap companies offering **exposure to the investor on the rising trend by consumers seeking all-natural, strictly herbal products for treatment of some ailments and common medical problems people encounter across the world today.** Despite heavy competition in one or more markets GBIC targets, we are of the view that its **HairMagic™** product will deliver the goods and have a promising life cycle, given the test results achieved in the double blind study of patients in Texas executed with R.O.V.E. Medical Clinic. Additionally the company will offer exposure to not only to the hair-loss market, but also to weight-loss and anti-depression treatments amongst others, **that can generate complimentary revenue streams and offset risk that exists of one or more product lines failing to live up to expectations.**

Both operating and financial risk involved in investing in a young drug related/herbal supplements company are typically high and should be considered by investors. In this case the operational **risks associated with effective market penetration through distributor relationships and wholesale programs that are being established and consumer purchase behavior vis-à-vis other medically prescribed drug alternatives offered by large pharma companies.** Rollout of its first 2 products only commenced in mid to late 2005 and there is no assurance that the marketing efforts will deliver consistent results necessary to produce the cited revenue goals. **Production costs for ingredients and herbal substances are relatively fixed and cannot be influenced or determined by management,** which can have an adverse effect on profitability if manufacturers revise existing terms. Readers should understand that there can be **no assurance that the company will be able to fast-track its intended path, towards having 6 products on the market by end of 2006 that are all able to generate revenues,** which can flow through directly to the top and or bottom line to build a consistent longer term profitable track record to enrich shareholder value. The ability of the company to create consumer awareness through the effectiveness of its products in combating the targeted medical problems faced by the consumer and creation of brand recognition **are the biggest unknowns at this specific point of the company life cycle.** These factors do and will play a material role in the financial performance of GBIC in the short, medium and long term.

We therefore only recommend investors that have a **high tolerance for risk** that are able and willing to forfeit either most or all of their capital in search for extraordinary returns, to consider investing in the shares. Also, in our view investors willing to commit capital to GBIC should do so with **absolute minimum 2 year investment horizon,** but preferably longer, to allow ample opportunity for growth to emerge until broader price discovery can materialize, within the investment community that will **allow the value behind the concept of the full Magic-line of products to be unlocked. Short term we expect GBIC stock to continue to build a base in the low to mid 30s, before making an attempt to break out of its long drift lower** after the huge spike, followed by an implosion seen in June 2005. **In the medium term a major risk factor may involve that additional capital raising or stock offering may be needed to continue organic growth and fund marketing and advertising activities, such that it may hinder further improvement in the rating of the shares until adequate funding is secured** that will satisfy concerns that may be present, or resurface in the investor community. Despite this risk, we believe that the company will be able to continue its operational plans for at least 12 months given its present level of capital resources.

GBIC is a Pink Sheet listed company and there has not been any disclosure of financial statements released to shareholders that allow us insight necessary to complete a qualitative and quantitative review of the company. **Based on the absence of this information we have decided to initiate our coverage on the security with a speculatively neutral rating.** We highlight to investors that we require financial disclosure for all issues we cover as one of the criteria necessary in order to be classified in a our highest rating category (Speculative Positive Rating). Conditions necessary for us to raise our rating for GBIC into that category would require further evidence of distribution and marketing efforts realizing monthly, quarterly or yearly goals and SEC filings containing a discussion of operations, accompanied by financial statements or a press release containing key financial variables.

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Based on recent developments we expect performance of the launch of the existing and new products to begin to bear fruit into the latter half of the coming financial year (FY2006). Under the assumption that any additional capital raising activity is well-managed and expecting revenue in 2006, positive cash flow from operations to be generated in FY 2006 as more progress is made to launch additional groundbreaking herbal products in new markets, we are of the opinion that GBIC stock has further upside potential.

Given managements and our own independent forecasts, we are of the opinion that revenue potential of \$6 million is achievable for FY 2007. Using our gross margin and operating cost assumptions we calculate a net pre-tax profit of \$0.342 million for FY 2007, we estimate a FY 2007 EPS of 2c (assuming 17 million weighted number of shares outstanding). We have made full allowance for tax credits that may be utilized in FY 2006 and FY 2007, assuming no tax expense.

For FY 2006 we are expecting EPS to come in close to breakeven as GBIC ploughs back most of the cash generated to rollout new products and to emphasize its marketing campaign in its budgeting.

Using our FY 2006 and FY 2007 EPS forecasts and applying a forward PE multiple of 27x, we arrive at forward share value of 54c looking towards 2007. The PE ratio chosen are based on a blend of peer drug related comparatives and as a function of the expected growth rate, or PEG methodology. We have chosen a discount rate of 20%, which is a function of the stocks beta measure using industry comparatives. Examples of companies used in our assessment are HLF, CNXS, NTY, NATRE, PRGO.

		Forward	Forward	Discount	Present
		PE multiple	Price	Rate	Value
FY 2006 EPS	0	NA	NA	NA	NA
FY 2007 EPS	0.02	27	0.54	20%	0.450
Average					

We compute a present value of the FY 2007 future value (forward price) by discounting and ignoring the FY 2006 value given the breakeven EPS (SEE TABLE ABOVE). This process yields a result of 45c which is our mathematical estimate of the value of GBIC under these assumptions. Given these calculations and our bottom up analysis which is more qualitative in nature, we set a 12 month target price for the security of \$0.50.

We HIGHLIGHT to the reader that this forecast is made under the assumption that the company can attain our FY2007 revenue expectation of at least \$6 million and a minimum of \$0.342 million after tax income. Moreover, we believe that the present market for GBIC shares is far from efficient, does not fully reflect the leverage possible to shareholders if the full product "Magic" line is introduced on a large scale and distribution and sales channels succeed in achieving market penetration.

Under these assumptions we initiate coverage on GBIC with a SPECULATIVE neutral rating. Risk to our recommendation include amongst other: failure of new "Magic"-Line products to come onstream by scheduled dates due to manufacturing or other difficulties or delays in the near term, failure to reach the consumer or target, high marketing campaign and other unforeseen large SG&A expenses that pose risk to our EPS estimates and our margin assumptions, fees and/or any adverse regulatory changes in the markets it serve or FDA intervention in the market for herbal products sold at retail level.

Major competition by large pharmaceutical and other herbal supplement companies able to lure the consumer with more enticing propositions, any inability to obtain necessary financing from capital markets when needed, to continue its business projects and/or major share dilution that can occur, if large quantities of shares are issued to extinguish debt or paid for services, are some additional factors that will counteract price appreciation potential or cause shares to decline in value.

We would caution that given the size of the company (microcap) and risks involved, overall we advise positions be limited below 3% of the client's total portfolio size.



## ANALYST CERTIFICATIONS

## APPENDIX-A1

The research analyst, who upon request wrote this report, certifies that the views expressed in this research report, accurately reflects his personal view about the subject company. The analyst also certifies that he does not own or have any beneficial interest in shares of the covered company, also that no part of his compensation was, is or will be directly or indirectly related to the specific recommendation or view expressed in this report. Based on the facts that were provided, the industry trends present and sources of information used to produce this report, it is my best opinion and reflection of what the company's rating and share appreciation potential could be once research coverage is widely adopted. Investors are urged to consider this report as only a single factor in making their investment decision. Information, opinions or recommendations contained in this report or research note are submitted solely for advisory and information purposes and we also do not accept any obligation to provide updates to this report in future.

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