

REGI U.S., INC.

(OTC BB:RGUS)

Michael Grobler, CFA
 info@bridgeir.com
 (212) 518 8637

Website: <http://www.regtech.com>
 Exchanges: US-OTC Bulletin Board Canada-TSX RRE
 Germany: Frankfurt-RGJ
 Contact: ir@regtech.com (604) 278-5996 ext.1

Recent Price: **\$1.26**
 Target Price: **\$5.50**
 (12-month)

SPECULATIVE STRONG BUY RATING

Main Headquarters

REGI U.S., Inc.
 #240-11780 Hammersmith Way
 Richmond, BC V7A 5E3
 Canada

Tel: (800) 665 4616
 Fax: (604) 278 3409

Revving Up To Make its Debut

Company Overview

REGI U.S., Inc. (OTCBB:RGUS) is in the business of designing, developing, and manufacturing axial vane type rotary engines (RC/DC or Rand Cam/RadMax™ engines) for commercial and civilian applications. Jointly with parent company REG Technologies, Inc, REGI U.S., Inc. owns the marketing and intellectual rights to the Rand Cam/RadMax™ rotary technology. REGI owns the U.S. rights and REG Technologies owns the world rights.

- The revolutionary Rand Cam/RadMax™ engine has far-ranging applications from **military aircraft, compressor and pump applications, weed-trimmers, air and steam expanders** to **hybrid vehicle applications and personal power generation.**
- The **lightweight rotary engine has only two moving parts** – the vanes (up to 12) and the rotor – a revolutionary design that makes it both **extremely efficient** and **very quiet**. The engine also **can run on a variety of fuels** ranging from natural gas, hydrogen, propane, diesel and gasoline.
- Quite simply, REGI U.S.'s rotary engine technology represents a **dramatic departure** from **existing engine designs virtually unchanged since the piston engine** was invented in 1876. The target **market for the Rand Cam/RadMax™ technology** is vast, estimated at more than **\$200 billion worldwide** by several sources.
- Several **major defense contractors** from both the U.S. and Europe **have expressed serious interest** in the company's unique engine technology. In the commercial applications arena, there are major companies that are interested in commercial applications such as generators and compressors.
- The **Rand Cam/RadMax™ 125 H.P. prototype engine built by Radian** for spy plane applications is currently being tested by REGI U.S. Inc. RGUS has also built a **Rand Cam/RadMax™ air conditioning compressor** for use in commercial buses.
- The company's funding needs enjoys the support of its controlling shareholder, Rand Energy Group Inc. who is willing to lend access to capital for expansion and operations. We believe such financing will enable RGUS to **leverage its intellectual property** that the Company has secured thusfar that will ultimately be accretive to shareholder value.
- On July 24, 2006, RGUS engaged J.H. Darbie & Co., Inc. to act as REGI U.S., Inc.'s Financial Advisor and Corporate Consultant for a period of 12 months. REGI U.S., Inc. will also instruct J.H. Darbie to **assist the Company in applying for a listing on the American Stock Exchange or NASDAQ.**
- We believe the upside potential in the shares substantially outweighs the downside risks. Pound for pound, Rand Cam/RadMax™ is designed to be more powerful and fuel-efficient than current reciprocating engines, yet it is less expensive to assemble and maintain. These factors coupled with its wide range of applications and prototypes being tested give us a high level of confidence that the company will be able to achieve commercial success. Once testing is completed, the Rand Cam/RadMax™ Engine could go into production quickly, producing a solid revenue stream from license fees and a royalty on future license agreements. Under our assumption that a 0.25 to 0.5% overall market share of its worldwide market is a strong possibility within the next 5 years, we classify the shares in our SPECULATIVE STRONG BUY rating category. Our positive stance is as a direct result of the market capitalization that appears very modest in light of our conservative valuation and given that the market is still completely unaware of the company and its blockbuster renewable energy engine technology. See INVESTMENT THESIS & RECOMMENDATION for more in-depth discussion (Page 15-17).**



REGI U.S. Inc.	
<i>(all figures in millions)</i>	
52 Week Hi/Lo Range	2.60/0.41
Fiscal Year End	30-Apr
Shares Outstanding	25.9
Float (approximately)	9.4
Share price (10/20/2006)	1.300
Market Capitalization	33.7
Average Volume (3 months)	NA
Insider Ownership (approximately)	24%
Institutional Ownership	NA
Enterprise Value (EV)	33.88
Long Term Debt (07-31-06)	0.173
Total Cash (07-31-06)	0.011
4/30/2007 4/30/2008	
FY2007 E FY2008 E	
Earnings Per Share (EPS)	0.013 0.049
Book Value (\$/share)	-0.002 0.047
FY2007 E FY2008 E	
Total Revenue	7.000 21.000
Cost of Sales	
Gross Profit/Loss	
Operating expenditures	
Income/Loss from Operations	
Other Expenses	
Tax Items	
Net Income	0.350 1.260
NA = Not applicable/Not Available. A = Actual Reported figures E = Estimates	
Balance Sheet & Financial Statement Extracts (07-31-2006)	
Current Assets	0.180
Current Liabilities	0.055
Total Assets	0.180
Total Shareholders Deficit	0.047
Operating cashflow (3 mo to 7/31)	-0.237
Capital Structure (03-31-2006)	
Authorized Common Stock	50 000 000
Warrants Outstanding	720 000
Outstanding Stock Options	1 159 250

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

THE COMPANY

REGI U.S., Inc. (OTC BB: RGUS) is engaged in the business of developing and building an **improved axial vane-type rotary engine** known as the **Rand Cam/RadMax™ Engine (RC/DC Engine)**, which is a variation of the Rand Cam Rotary Engine, an axial vane rotary engine. The worldwide, exclusive of the United States, intellectual and marketing rights to the RC/DC Engine are held by REG Technologies. REGI U.S. owns the United States marketing and intellectual rights and has a project cost sharing agreement, whereby it will fund 50% of the further development of the RC/DC Engine and REG Tech will fund the other 50%.

The Company maintains offices in Richmond, British Columbia in Canada and it was originally incorporated in the state of Oregon in July 1992 as Sky Technologies Inc. On August 1, 1994, the company's name was officially changed by a vote of a majority of shareholders to REGI U.S., Inc. The present entity is controlled by Rand Energy Group Inc., a privately held British Columbia corporation (RAND) which holds approximately 16% of the common shares of REGI, which, in turn, is controlled 51% by REG Technologies Inc., a publicly held British Columbia corporation trading on the OTC Bulletin Board under the ticker symbol REGRF. Reg Technologies, Inc. has a direct and indirect control of 6,396,116 shares of REGI U.S., Inc., with a value of approximately US\$7,000,000.

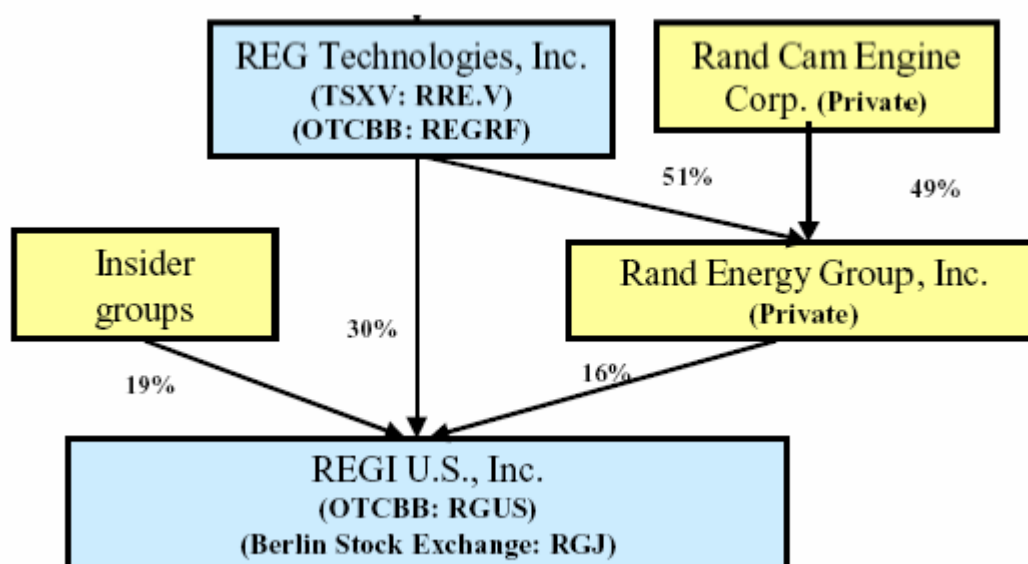
RGUS's assets are their intangible assets, being patents and intellectual property rights. Research and development programs since 1987 have developed a number of Rand Cam/RadMax™ engine designs to **address many large markets including transportation, power generation, agricultural, landscaping equipment, marine, construction, power tools, pumps, and compressors** (both heat and air conditioning). The majority of prototype construction and testing costs continues to be borne by potential licensees and manufacturers. Rand Energy Group, Inc. owns 5,073,200 shares of REGI and **plans to sell shares as needed to meet their ongoing funding requirements**, if traditional equity sources of financing prove to be insufficient.

On September 21st 1994, REG Technologies Inc. announced that REGI US Inc. (its subsidiary) had started trading on the OTC Bulletin board (OTC BB:RGUS) but the actual SEC registration is dated June 6, 1996. Insiders of REGI now currently hold 6,017,850 common shares, representing control of approximately 24.15% of the total voting power. Accordingly, the present insiders continue to elect all of their own directors and generally control their affairs.

Effective May 1, 2006, our shares began trading on the Frankfurt Stock Exchange under the symbol (RGJ). The International Security Identification Number (ISIN/CUSIP) number is US7589431045. Because the Frankfurt exchange is the third-largest organized exchange-trading market in the world (just behind the NYSE and NASDAQ exchanges), in terms of turnover and dealings in securities, we anticipate a much wider, international market access for our shares. The listing on the Frankfurt Stock Exchange provides us with increased exposure to worldwide capital markets and will enable REGI to attract European institutional and individual investors to trade the Company's common stock in euros.

The Company's ownership structure and the cross holdings of the REG/Rand Cam/RadMax group of companies are shown in the diagram below:

GROUP STRUCTURE



Source : The Company

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

Rand Energy Group, Inc., a private company that owns approximately 5 million shares and a 16% net profit interest of REGI U.S. It also receives an annual payment of \$50,000. **Jointly with parent company REG Technologies, Inc, REGI U.S., Inc.** owns the marketing and intellectual rights to the Rand Cam/RadMax™ rotary technology. **RGUS owns the U.S. rights and REG Technologies owns the world rights.**

Rand Energy Group Inc. is owned 51% by REG Tech and 49% by Rand Cam/RadMax Engine Corp. Under Rule 13d-3 under the Securities Exchange Act of 1934, both REG Tech and Rand Cam/RadMax Engine Corp. could be considered the beneficial owner of the shares registered in the name of Rand Energy Group Inc.

SMR Investment Ltd., a British Columbia corporation, holds a controlling interest in REG Tech. Since May 1977, Mr. Robertson has been President and a member of the Board of Directors of SMR Investments Ltd. Susanne M. Robertson, Mr. Robertson's wife, owns SMR Investment Ltd. Accordingly, beneficial ownership of the shares registered in the name of Rand Energy Group Inc. has been attributed to Mr. Robertson. Rand Cam/RadMax Engine Corp. is a privately held company whose stock is controlled by James McCann (the inventor of the Technology) and by several other shareholders in minor interest. As of July 17, 2006, there were 25,900,375 shares of common stock outstanding, held by 240 shareholders on record.



The Rand Cam/RadMax™ engine is an internal-combustion engine built around a rotary design. The technology is owned and licensed in North America by REG/REGI Tech, Richmond, British Columbia, Canada (regtech.com). A **Rand Cam/RadMax™ engine** would have **two to three times the power and weigh half as much as a Wankel engine of the same size.** Simplicity, power, and efficiency are key design priorities in the development of the Rand Cam/RadMax/Direct Charge Engine, a truly revolutionary form of rotary power. The engine is comprised of a disc-shaped rotor and driveshaft, which turn the housing, or stator, which remains stationary. Up to 12 vanes mounted parallel to the shaft slide up and down along the outside of the rotor as they follow a track along the inside of the stator housing.

The engine also generates lower vibrations because all the components are spinning in the same direction. **There are no pistons or valves making thousands of abrupt changes per minute.** The combustion chambers are also balanced around the rotor, plus the rotor acts as a flywheel to smooth out power imbalances and eliminate destructive harmonics.

The Rand Cam/RadMax™ engine has a variety of possible applications, ranging from the tiny weed-trimmer to the commercial and/or military jet engine, and a wide spectrum of uses, from air conditioner compressors to air and steam expanders to hybrid vehicle applications, to personal power generation. Multi-fuel capability, fewer moving parts, high and efficient rates of combustion, low weight, reduced vibration, and ease of maintenance are but a few of the advantages this technology offers.

INDUSTRY

U.S. Diesel Engine Market:

The market for Rand Cam/RadMax™ technology is enormous, the diesel engine market valued in the U.S. alone at greater than \$20 billion. RGUS is now ready to capitalize on 16 years of exceptional development as it transitions from R&D to commercialization. License agreements have the potential to generate significant revenue over the next few years. REGI will continue to present the Rand Cam/RadMax™ technology to interested companies such as the **big three automakers, Cummins Engine Company, Caterpillar.** The introduction of modern diesel engines is a practical way to save energy and alleviate emission pollution, this is especially the case in China, diesel engines still have a bad reputation in China as many low quality trucks spew black smoke and are very noisy. With the hiking energy cost and growing voices for regulations on the pollution control, the demand of better diesel engines will be high.

Diesel engine cars account for only a tiny proportion of the total car output in China. Even there are still many problems to be resolved before a sustainable diesel engine car market can be fully developed in China (poor quality of diesel oil produce for example), we still believe it is a one of the biggest potential international markets. Diesel engine cars account for 40 percent of the total car market in Europe and for 50 percent in Germany. Together with the international market, the company estimates the **worldwide diesel engine market to be around \$60 billion.**

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

Worldwide Military Market:

With Unmanned Aerial Vehicles (UAVs) comprising the most dynamic sector of the aerospace industry, according to many different surveys, we believe that UAV market (including air vehicles, ground control equipment and payloads) will grow three to four times over the next decade, from current worldwide UAV expenditures of **about \$2.8 billion in 2005 to an estimated \$8.9 billion in 2014**. The United States is largest market for the UAVs. Further, other military contracts could be worth multi-billions dollars.

Hybrid Electric Vehicles:

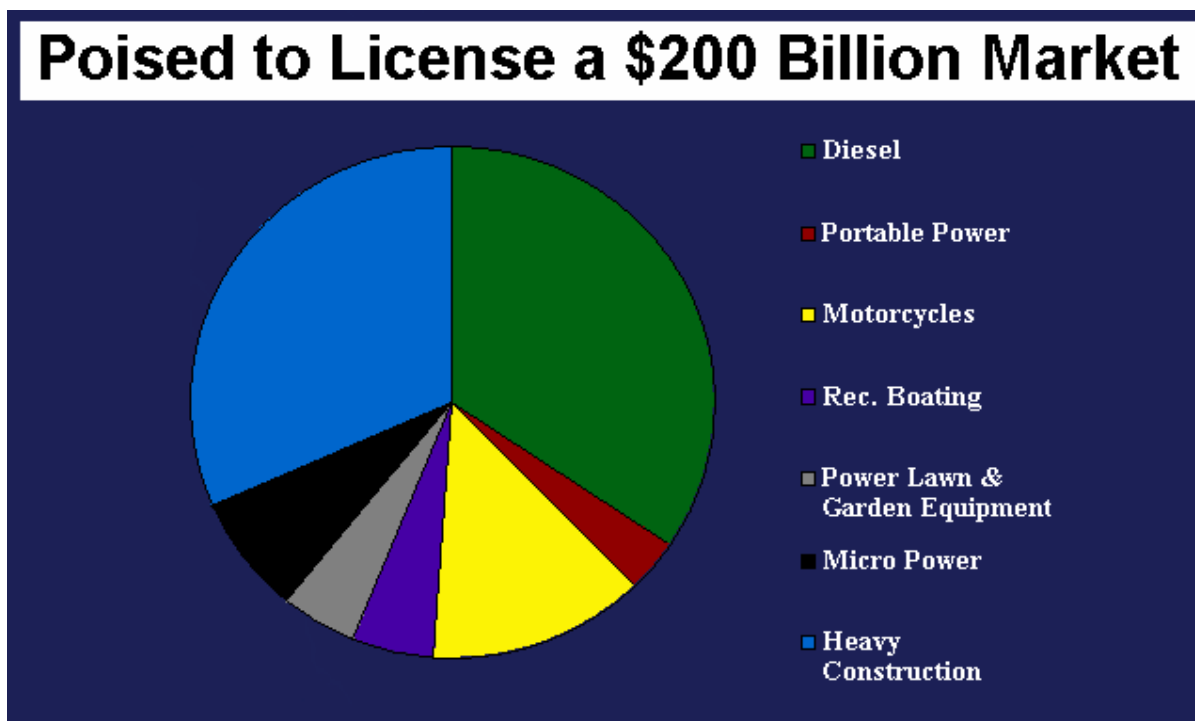
Despite rapid growth in hybrid-electric vehicle sales forecasted over the next few years, hybrid market share is expected to top out at 3 percent of the U.S. automotive market by 2010, according to the J.D.Power-LMC Automotive Forecasting Services Hybrid-Electric Vehicle Outlook. Nearly 88,000 hybrid-electric vehicles were sold in the United States in 2004, comprising 0.52 percent of the total U.S. light-vehicle market. With the number of vehicle models utilizing a hybrid-electric powertrain in the U.S. market expected to increase from 8 to 11 in 2005, J.D. Power-LMC anticipates hybrid sales will surge to more than 200,000 units this year, resulting in a market share increase to 1.19 percent.

Seventeen hybrid-electric models will be available in the U.S. market in 2006, when sales are expected to climb to more than 260,000 units and market share to reach 1.53 percent. J.D. Power-LMC anticipates that number to grow to 38 hybrid models—17 cars and 21 light trucks—by 2011, with sales reaching 535,000 units, or 3 percent of U.S. sales. Therefore, the company estimates the **HEV market would be \$14-15 billion** by the end of this year, and the **annual growth** rate for the HEV market would be **around 15%**.

Motorcycles Market:

The company is also aiming at the motorcycle market in South Asian countries and China, due to the undeveloped infrastructures, higher costs of cars, and the traffic conditions in many Asian countries, motorcycles are still major transportation vehicles. Indian market is the second biggest in the world for two wheelers. Though the total two-wheeler market in India has not increased over the last year, and it is shrinking in scooter and two-stroke bike segment, it is increasing by 20% in some markets and 25% in some other markets in motorcycle category. Now the customers prefer fuel-economy bikes, because the fuel is very expensive in this part of world. About 80% of total motorcycles types available here are fuel-economy category.

In the countries like Japan, USA or Europe there are sportier and joyriding bikes whereas in South Asia they are more like utility vehicles. Here people don't need big motorcycles- 100 cc and 125 cc bikes are more popular here. They may go for 200 cc bikes at the maximum. Even the fashionable bikes here have fuel economy types. Therefore, we believe Rand Cam/RadMax™ technology is the best fit for these markets. RGUS estimates the worldwide motorcycle market to be around \$15 billion.



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

Other Markets:

Portable power, Micro power, pumps and compressors markets are also billion dollar markets, the Company estimate these markets to be a total \$25-30 billion.

PRODUCT & TECHNOLOGY OVERVIEW

REGI U.S. is working on the final engine design to potentially address the power needs of many large markets, including military, homeland security, transportation, power generation, agriculture, landscaping, marine, construction, and power tools, as well as pumps and compressors for both heat and air-conditioning. **REGI U.S. has completed important modifications to the 42 h.p. diesel engine** which resulted in successful continuous combustion tests.

The Rand Cam/RadMax™ engine represents **a dramatic departure from existing engine design** that has not changed appreciably since the invention of the first piston engine by Karl Otto in 1876. **Simplicity, power, and efficiency** are key design priorities in the development of the RC/DC engine, a truly revolutionary form of rotary power. Pound for pound, it is **more powerful and fuel-efficient than current reciprocating engines** and yet it will **be less expensive to assemble and maintain**. Moreover, the engine can **run on multiple fuels** such as diesel and natural gas, as well as propane and hydrogen to reduce emissions and consumption of fossil fuels.

The Rand Cam/RadMax™ engine is an internal-combustion engine built around a rotary design. The technology is owned and licensed in North America by REG Tech, Richmond, British Columbia, Canada. **A Rand Cam/RadMax™ engine would have two to three times the power and weigh half as much as a Wankel engine of the same size**. Simplicity, power, and efficiency are key design priorities in the development of the Rand Cam/RadMax™ engine, a truly revolutionary form of rotary power.

The engine is comprised of a disc-shaped rotor and driveshaft, which turn the housing, or stator, which remains stationary. Up to 12 vanes mounted parallel to the shaft slide up and down along the outside of the rotor as they follow a track along the inside of the stator housing. Combustion chambers form between the rotor, stator walls and vanes, and their volumes change as the vanes move during rotation. Although the design could use only two vanes, the current version has 12, which generate 24 combustion events (intake, compression, ignition, exhaust) per rotation. This lets the engine generate 1hp/0.75 lb, as compared to a conventional internal-combustion engine's 1 hp/6 to 7 lb. The engine has a compression ratio of 20:1, which lets it burn a variety of fuels, including diesel. It also uses 13 moving parts rather than 40 for conventional 4-cylinder piston engines. That's because the rotor and vanes replace timing gears, connecting rods, pistons, cylinders, and valves. This should improve reliability and cut manufacturing costs.

The engine also **generates lower vibrations** because all the **components are spinning in the same direction**. There are no pistons or valves making thousands of abrupt changes per minute. The combustion chambers are also balanced around the rotor, plus the rotor acts as a flywheel to smooth out power imbalances and eliminate destructive harmonics. The revolutionary design makes it possible to produce a total of 24 continuous power impulses power one rotation that is vibration-free and extremely quiet.

The Rand Cam/RadMax™ engine has a variety of possible applications, ranging from the tiny weed-trimmer to the commercial and/or military jet engine, and a wide spectrum of uses, from air conditioner compressors to air and steam expanders to hybrid vehicle applications, to personal power generation. Multi-fuel capability, fewer moving parts, high and efficient rates of combustion, low weight, reduced vibration, and ease of maintenance are but a few of the advantages this technology offers.



The REGI U.S. engine design was used to power the **Ikelos aircraft, an award-winner during a competition sponsored by NASA's Langley Research Center in Hampton Virginia**. The design concept could be applied to small, inexpensive jets that would provide a **low-cost air taxi service** among America's 5,000 rural and suburban airports.

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RAND CAM™ – A REVOLUTIONARY ENGINE TECHNOLOGY

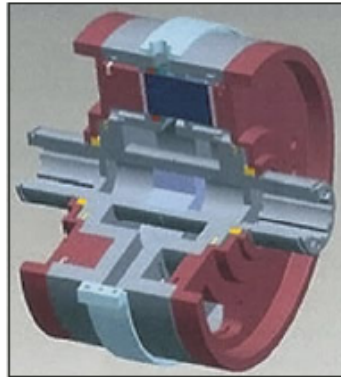
Power: Calculated at 30% working volume efficiency compared to Wankel engine's 10% working volume efficiency – the piston engine is only 4% efficient by volume (working volume)

Fuel Economy: Better than the existing heavy-duty diesel engines in the marketplace today

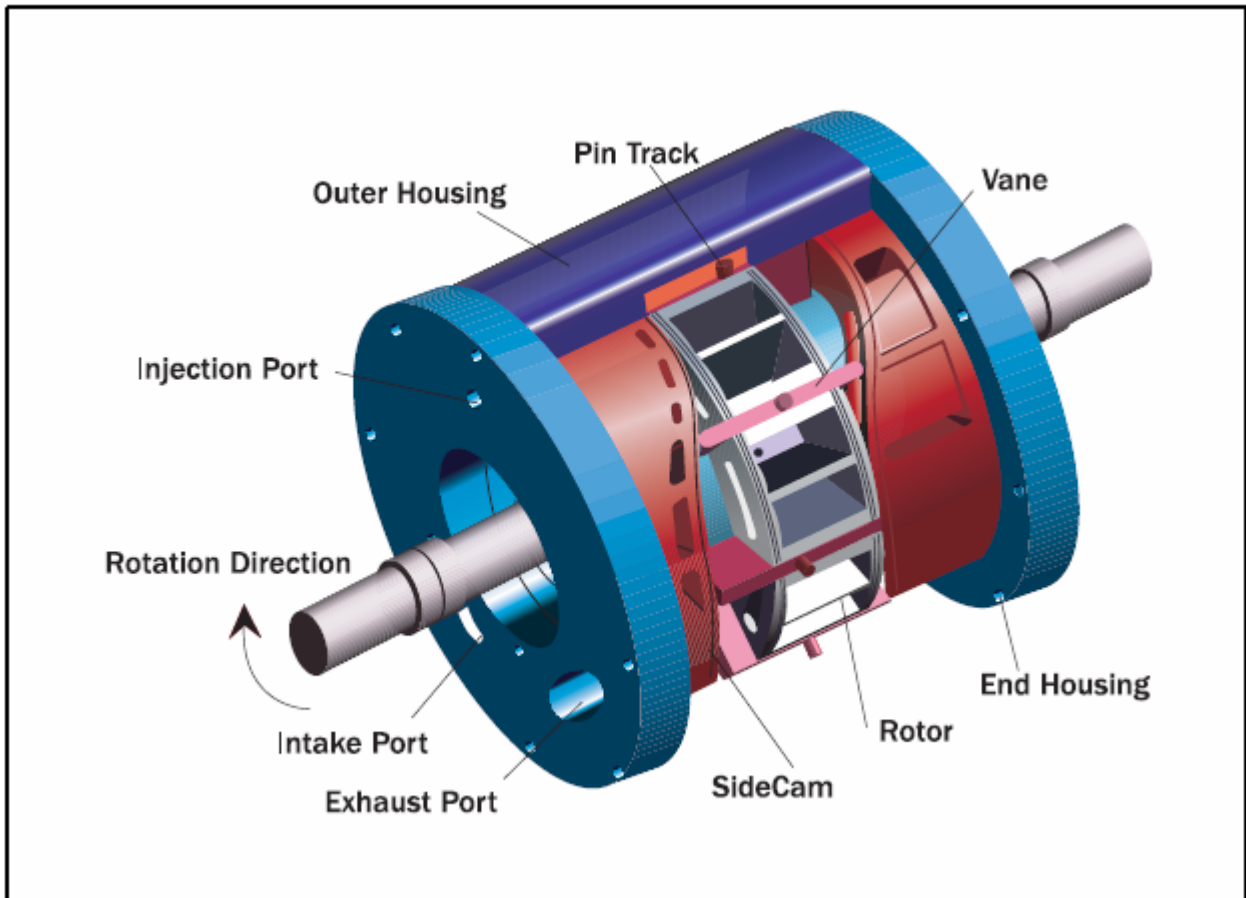
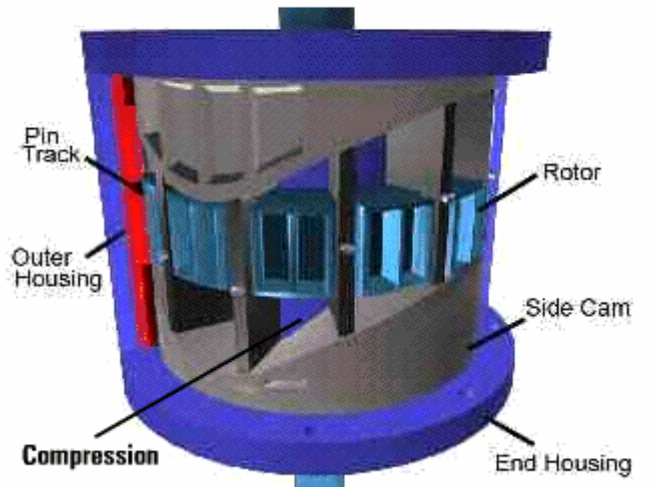
Vibration-Free: Balanced at all speeds and loads due to multiple power impulses for every rotation

Reliable: Simplified design, no wearing surfaces, and minimal moving parts (only rotor and vanes)

Quiet-Running: High firing frequency (24 combustions per revolution) eliminates exhaust and intake noise compared to 1 power impulse in the Wankel rotary engine



Technology



DESIGN	More powerful and fuel efficient than current reciprocating engines, yet less expensive to maintain.
SIMPLICITY	Only 2 moving parts, the vanes and the rotor - no pistons, valves, etc. - reducing assembly and maintenance costs.
POWER	Provides up to 24 power strokes per revolution. The stroke length of a reciprocating engine is Approximately 3.5", and one power stroke is generated for every two revolutions. The Rand/Cam Engine has a stroke length of approximately 14", and its unique design provides 12 power strokes per revolution. Calculated at 30% volume efficiency, compared to Wankel engine's 10% volume efficiency, compared to piston engine 7-8% volume efficiency.
COMPACT	Fully scalable, the 42 hp diesel engine version is only 6" in diameter by 6" long.
MULTI-FUELED	Ethanol, Natural Gas, Propane, Diesel and even Hydrogen Fuels including mixtures.
NOISE REDUCTION	High firing frequency resulting from 24 combustions per revolution virtually eliminates exhaust and intake noise.

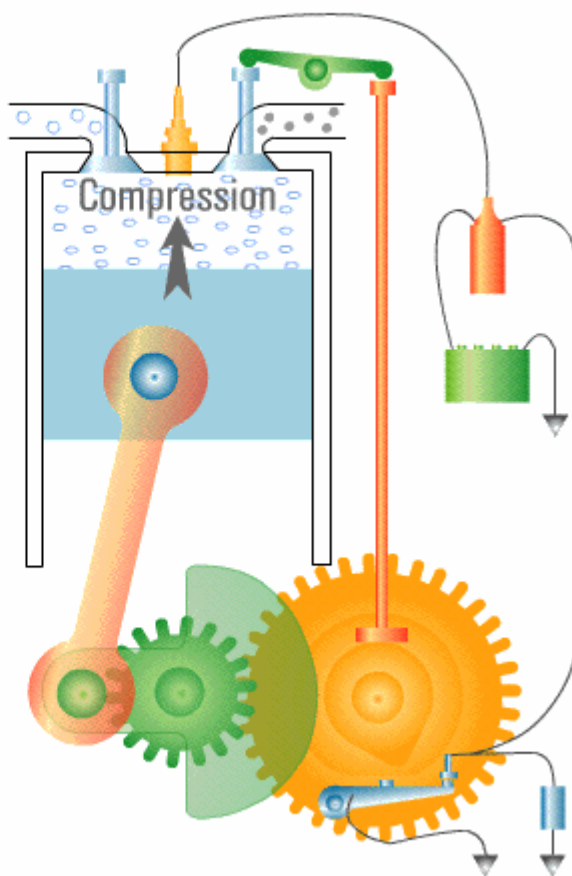
CONVENTIONAL PISTON (RECIPROCATING) ENGINE:

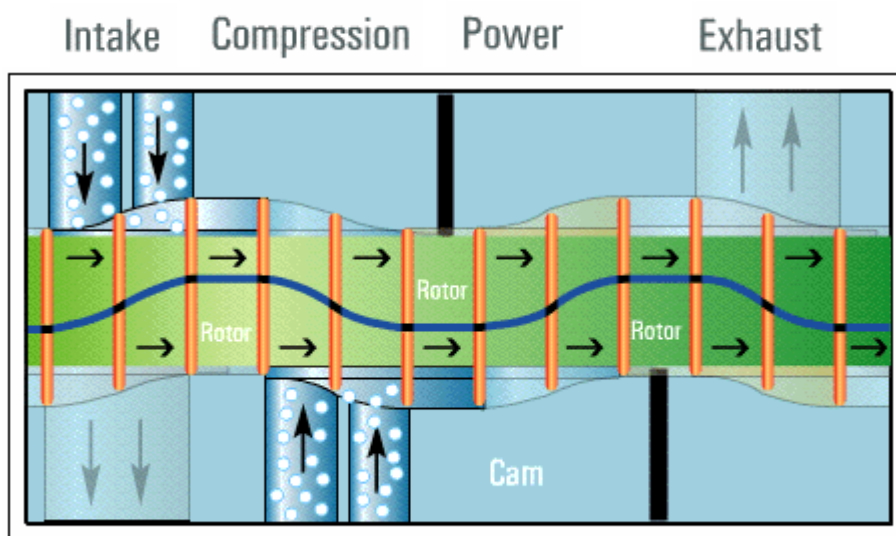
Intake - During the intake stroke the piston moves downward, drawing a fresh charge of vaporized fuel/air mixture.

Compression - As the piston rises the poppet valve is forced shut by the increased cylinder pressure. Flywheel momentum drives the piston upward, compressing the fuel/air mixture.

Power - At the top of the compression stroke the spark plug fires, igniting the compressed fuel. As the fuel burns it expands, driving the piston downward.

Exhaust - At the bottom of the power stroke, the exhaust valve is opened by the cam/lifter mechanism. The upward stroke of the piston drives the exhausted fuel out of the cylinder.



Radmax™ ROTARY ENGINE "UNROLLED":

Diesel Engine Schematic

Intake - The fuel/air mixture is injected through the intake port in the end housing, in to a "compartment" created between two vanes, the rotor and the outer housing walls.

Compression - As the fuel/air mixture is swept along the cam the space between the vanes gets smaller, causing compression.

Power - Under high enough compression (diesel) or with either a glow or spark plug, the compressed fuel is ignited. As the fuel burns, it expands, driving the rotor forward.

Exhaust - The exhaust exits through the exhaust port in the outer housing, as once again, the chamber narrows and the exhausted fuel is driven out of the compartment through a port in the end housing.

This cycle takes place on both sides of the rotor for an incredible 24 power strokes per one revolution. This lets the Radmax™ engine generate 1 hp/ 0.75 lb, as compared to a conventional internal combustion engine's 1 hp/ 6 to 7 lb. Also note that the rotor and the vanes on the Radmax™ engine replace the 40 moving parts on a conventional engine, including timing gears, connecting rods, pistons, cylinders and valves.

COMPETITION

The Rand Cam/RadMax™ is what's called a "rotary motor" which operates using vanes in place of the pistons that the existing internal combustion engine used today. There have **been some early versions of rotary motors in vehicles by companies like Mazda** but rotary motors **did not achieve widespread acceptance because there wasn't a lot of motivation to changeover**. Now that energy prices have risen radically and everyone is looking for alternatives that will save on energy costs and fuel consumption, we believe that RGUS has a superb solution. Its motors can generate 3 times the horsepower using an engine that has half the weight.

RGUS currently faces and will continue to face competition in the future from established companies engaged in the business of developing, manufacturing and marketing engines and other products. While not a highly competitive business in terms of numbers of competitors, the business of developing engines of a new design and attempting to either license or produce them is nonetheless difficult because most existing engine producers are **large, well financed companies which are very concerned about maintaining their market position**. Such competitors are already well established in the market and have substantially greater resources than RGUS. Automobile manufacturers, marine engine manufacturers, heavy equipment manufacturers and specialty aircraft and industrial engine manufacturers produce internal combustion engines. **We expect that the engine that RGUS will manufacture will be used mainly in industrial and marine applications after its initial launch.**

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Except for the **Wankel rotary engine built by Mazda of Japan, no clear competitor that we are aware of, presently produces in a commercial quantity any rotary engine similar to the engines that REGI U.S. is developing.** The Wankel rotary engine is similar only in that it is a rotary engine rather than a reciprocating piston engine. **Without substantially greater financial resources than is currently available to RGUS,** however, it is very possible that the Company may not be able to adequately compete in the engine business. One competitor, Rotary Power International, is presently producing the first production SCORE rotary (Wankel type) engines. RGUS RC\DC Engine is calculated to be, smaller, quieter, costs less to produce and maintain.

The Company believes that if and when its engine is completely developed, in order to be successful in meeting or overcoming competition, which currently exists or may develop in the future, **its engine will need to offer superior performance and/or cost advantages over existing engines used in various applications.**

The Rand Cam/RadMax™ engine can be used in any existing engine application that is used today where pistons are found. The number of potential applications for this is extensive. Most people don't realize how many motors we use in everyday life – from our cars to our lawnmowers to our home appliances to the planes we travel on. Everything from a weed trimmer to a jet engine needs a motor and we can apply our technology to any of these market sectors whether it is driven by gas, electricity, diesel or biofuel.

One of the primary competitive advantages that the **Rand Cam/RadMax™ possess, is that it is the first rotary motor ever that can run on diesel which has some pretty significant implications** in the industrial and heavy-duty equipment markets as well as consumer vehicles and possible defense applications, that is **likely to enhance the velocity of adoption.**

STRATEGY

The Company's strategic plans and objectives are summarized as follows:

- ❑ **To License the Rand Cam/RadMax™ technology and/or to participate in joint ventures to manufacture specific Rand Cam/RadMax™ applications.**

The company focuses on the research and development of the new technology, while leaving the marketing, manufacturing, and distribution to its licensing partners. This will help the company to keep the leader position in the technology, while taking advantage of the economies of scales of the larger cap partners.

- ❑ **To continue to adapt its present technology to alternative fuels to provide viable solutions to pollution problems and high fuel/energy costs.**
- ❑ **Patent Agreement has Extended RGUS's Control of this Groundbreaking Technology by 20 Years.**

REGI U.S. recently completed an agreement to obtain the rights to the RadMax technology preliminary patent application, the RadMax trademark, as well as all study notes, drawings and parts list from Radian Inc., recent developer of the Rand Cam/RadMax™ engine.

- ❑ **Diversification of Products**

REGI's technology can be applied in many fields. The company's new 125 H.P. engine for unmanned military and civilian applications.

Military Application:

Radian Milparts developed the RadMax™ engine for REGI U.S. for Unmanned Autonomous Aerial Vehicle (UAV). The U.S. Military still shows significant interest in the adaptation of the UAV.

Civilian Application:

- **Hybrid Electric Vehicles:** The Company is developing the application of Rand Cam/RadMax generator for the HEV. HEVs require light and compact engines with high power per weight unit.
- **Compressor and Pumps.**
- **Backup Power Generation for Residential Markets.**

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MARKETING

REGI U.S. intends to pursue the development of the RC/DC Engine and the air pump, compressor and other products by entering into licensing and/or joint venture arrangements with other larger companies, which have the financial resources to maximize the potential of the technology. The company has no current plans to become actively involved in either manufacturing or marketing any engine or other product, which it may ultimately develop to the point of becoming a commercial product.

Its current objective is to complete and test the various compressor, pump and diesel engine prototypes. Based on the successful testing, the prototypes will be used for presentation purposes to potential license and joint venture partners. We expect revenue from license agreements with the potential end users based on the success of the design from the compressor, pump, and diesel engine prototypes.

Based on the successful testing of the Rand Cam/RadMax prototypes, the Company expect to have joint venture or license agreements finalized, which would result in royalties to RGUS. However, there is no assurance that the tests will be successful or that RGUS will ever receive any such royalties.

The Company is currently developing and testing the 42 HP diesel engine and the 125 HP diesel engine. Marketing activities are currently underway for generator and fuel cell applications. RGUS entered into an exclusive distributor agreement with Anuvu Incorporated to build a working fuel cell model prototype for a vehicle for demonstration purposes in Canada for REG Technologies, Inc.

RECENT DEVELOPMENTS

REGI U.S. recently completed an agreement to **obtain the rights to the RadMax technology preliminary patent application**, the **RadMax trademark**, as well as all study notes, drawings and parts list from Radian Inc., recent developer of the 42 H.P. engine and the 125 H.P. RadMax™ engine. This gives RGUS a new, improved version of its rotary engine design – and the **potential for another 20-year patent**. This is a very important agreement for the company since **developmental work on the Rand Cam/RadMax™ original patents have used up nearly 10 years of patent-life**, according to the CEO Mr. Robertson. The Radian agreement now gives the **company an additional 20 years to generate revenue – and greatly enhance future rewards for investors**. In exchange for the patent and property rights, REGI U.S. is providing an unconditional release to Radian for all obligations under the licensing arrangement.

On May 1, 2006 the Company announced that **Anuvu Incorporated** had reported the status of building fuel cell components for REG Technologies, Inc.'s **neighborhood electric vehicle (NEV)**. Anuvu Incorporated, a designer, manufacturer and licensor of patented hydrogen fuel cell stacks and energy systems, is providing a fuel cell-powered neighborhood electric vehicle (NEV) to REG Technologies (REGI U.S.'s parent company) for evaluation and testing. NEVs are frequently used at multi-building facilities, golf courses, retirement communities, as well as at other locations requiring short-range passenger and light utility mobility.

The **on-board power system could triple the operating time of an existing NEV battery pack**, and increase operating range from 25-50 miles per charge to more than 100-150 miles per charge. The fuel cell would be hydrogen fueled from a compressed tank that could be refueled in minutes. The fuel cell would run continuously while the vehicle is in operation, constantly recharging the battery. The fuel-cell system also has mobile power generation applications.

On-board AC outlets allow the use of tools, appliances and electronics for up to 24 hours of continuous operation. This makes NEV fleets a perfect tool to aid in on-the-ground coordination and efforts of first-responders in emergency situations and natural disasters affected by power outages. REG Technologies owns the exclusive distribution rights for Canada for the Anuvu Fuel Cell technology. The companies have a common objective of developing a clean burning new source of power for vehicles, which are currently using gasoline driven piston engines.

The final cutting and assembly of the fuel cell components was scheduled for mid-May and the components being custom machined for this project was received from the machinist shortly thereafter. Additionally, Anuvu prepared an integration, testing and delivery schedule outline for the NEV. Anuvu has shipped the fuel cell to REGI's research and development facilities in Richmond, B. C., with delivery occurring in September 2006, which is now being integrated into an electric car for testing.

On June 20, 2006, the **final modifications for the 125 H.P. version of the RadMax™ engine** were completed by **Ebco Industries**. The assembling of the 125 H.P. engine has commenced and testing is planned to occur during Q2 FY2007. The testing will consist of endurance to determine wear and tear, and maintenance factors /hydrocarbons /calculations and fuel efficiency using a state-of-the-art computerized fuel injection system. Biodiesel and ethanol blended fuels will also be utilized in a series of tests.

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

Ebco Industries Ltd. has modified REGI U.S.'s 42 and 125 horsepower diesel Rand Max engine, which will also be tested for diesel, gasoline, hydrogen, pump and compressor applications. The first application to be tested is for an unmanned aerial application.

The engine will also be tested for hybrid car generator applications. Ebco is a major custom Canadian manufacturer of equipment, machinery and related components for the aerospace and defense industries, as well as for petrochemical, power generating, mining, pulp and paper and forestry sectors. Ebco has been around for over 50 years. It really gives RGUS's **technology credibility** to have a company of this stature show interest to manufacture its engines, and will likely raise the speed of adoption due to customer recognition and the wide ranging distribution network that Ebco has in place, when the engine technology makes its debut in one or more applications, which we anticipate will occur sometime in the next 12 months.

FINANCIAL STATEMENTS

The company filed Form 10-QSB with comprehensive financial information and operational discussion with the SEC with regards to financial performance and developments for the first quarter of FY2007 (Q1 FY2007) on September 14, 2006. REGI U.S. Inc. has its fiscal year-end on April 30. The results for the first 3 months of FY2007 to July 31, 2006 are un-audited.

As a development stage company, RGUS devotes most of its activities to establishing its business. Planned principal activities have not yet produced significant revenues and the Company has a working capital deficit. RGUS has undergone mounting losses to date totaling \$8,070,663 and further losses are expected until it completes a licensing agreement with a manufacturer and reseller. At July 31, 2006, the Company had a working capital deficit of \$47,438. Its only assets are cash totaling \$11,177, prepaid expenses, totaling \$114,363 and \$54,477 of funds due from a related party. These factors raise substantial doubt about its ability to continue as a going concern. Its ability to emerge from the development stage with respect to its planned principal business activity is dependent upon successful efforts to raise additional equity financing, receive funding from affiliates and controlling shareholders, and develop a market for its products.

During 2006 and 2005, RGUS raised a total of \$1,158,200 pursuant to two private placements of an aggregate of 2,532,800 units. 1,032,800 units of the Company were issued at a purchase price of \$0.25 per unit for total cash proceeds of \$258,200. Each unit contains one share and one-half warrant. Each whole warrant may be exercised within one year of date of issuance to acquire one additional share at \$0.35 per share. 1,500,000 Units were issued at a purchase price of US\$0.60 per Unit for total cash proceeds of \$900,000. Each Unit consisted of one share common stock of the Company and one half warrant. Each whole warrant may be exercised to enable the investor to purchase one additional share of Common Stock at US\$0.80 within the first year of the date of issuance to the purchaser, and US\$1.00 within the second year of the date of issuance to the purchaser. During the year, TGUS also raised \$53,313 from the exercise of 212,000 stock options, and \$142,240 from the exercise of 406,400 share purchase warrants. During the fiscal year ended April 30, 2005, the Company raised \$29,750 from the exercise of 133,750 stock options, and \$34,624 from the exercise of 173,120 share purchase warrants. These funds raised do not provide enough working capital to fund ongoing operations for the next twelve months. The company may also raise additional funds through the exercise of warrants and stock options.

There were no revenues from product licensing during either FY2006 (12 months to April 2006) or FY2005 (12 months to April 2005). The net loss in FY2006 increased by \$470,469 to \$1,055,358 (or \$0.04 EPS loss) compared to \$584,889 (or \$0.03 EPS loss) in FY2005. The increase was due to an increase of \$620,025 in general and administrative expenses. The increase in administrative expenses was mainly due to an increase in stock-based compensation of \$101,489 to \$124,793 in FY2006 from \$23,304 in FY2005 and an increase in consulting fees of \$153,220 to \$329,922 in 2006 from \$176,702 in FY2005, and an increase in investor relations expenses of \$381,890 to \$467,009 in FY2006 from \$85,119 in FY2005. The majority of prototype construction and testing costs continues to be borne by potential licensees and manufacturers.

During the first 3 months of FY2007 the company did not generate any revenues. General and Administrative expenses were \$198,360 which increased from \$157,421 during the comparable quarter in FY2005. Also in this quarter the company spent \$93,493 in total on Research and Development, which culminated in an operating, and also a net loss for the period of \$291,853, or \$0.01 cent EPS loss on a weighted average number of shares outstanding of 25.892 million versus 22.231 million during the same period in FY2005.

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

Liquidity and Capital Resources

As at the end of Q1 FY2007 on July 31, 2006 the company had a cash balance of \$11,177, as compared to a balance of \$240,137 at the end of fiscal 2006 on April 30, 2006. This decline was as a direct result of the net loss of \$291,853 incurred during the quarter (Q1 FY2007) that contributed to negative operating cashflow of \$237,441, which caused a drag on cash resources, the impact of which was slightly muted by \$8,481 of cash provided by financing activities.

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

During 2006, RGUS financed operations mainly through proceeds of \$195,553 from the exercise of stock options and share purchase warrants, as well as net proceeds of \$881,088 from the completion of a private placement offering. The Company received funding in 2006 from its affiliated companies (common officers and directors) and its 16% shareholder, Rand Energy Group, Inc. (Rand) and REG Technologies Inc., the controlling shareholder of Rand Energy Group, Inc. The total amount owing to related parties is \$172,779 or 75% of total current liabilities as at July 31, 2006.

The balances owing to related parties are non-interest bearing, unsecured and repayable on demand. Its affiliated companies have indicated that they will not be demanding repayment of these funds during the next fiscal year **and will advance, or pay expenses on behalf of, further funds if needed.** As at April 30, 2006, RGUS had working capital of \$47,438. The Company receives interim support from its ultimate parent company and plan to raise additional funds from equity financing which is yet to be negotiated. RGUS also plans to raise funds through loans from a major shareholder Rand. Rand owns 3,205,986 shares and plans to sell shares as needed to meet ongoing funding requirements of RGUS if traditional equity sources of financing prove to be insufficient. The Company plans to raise funds through loans from Rand Energy Group Inc. (Rand), a private company with officers and directors in common with the Company. Further, Rand owns approximately 11% of the shares of the Company, and may sell shares as needed to meet ongoing funding requirements if traditional equity sources of financing prove to be insufficient. The Company also receives interim support from affiliated companies and plans to raise additional capital through debt and/or equity financings. There continues to be insufficient funds to provide enough working capital to fund ongoing operations for the next twelve months. The Company may also raise additional funds through the exercise of warrants and stock options, if exercised.

RISK FACTORS /CONCERNS

The business model, and longer-term consistency of revenue and income potential, remain uncertain and is not fully proven. REGI U.S. currently has no signed contracts that will produce revenue and it does not have an estimate as to when it will be entering into such contracts. Furthermore, it cannot provide assurance that management will be successful in negotiating such contracts. RGUS is **substantially dependent on the expertise of its management team and directors**, the loss of which could materially adversely affect future anticipated results. The company is still considered to be a **development stage company** and has not generated surplus revenues. The Company may not be able to generate sufficient funds to operate its business, which, could harm results and force the Company to curtail or cease plans for commercialization of its IP and for expansion. There can be **no assurance the company will be successful in its effort to secure additional financing, if needed** to support operations that will necessitate achievement of near and medium term goals.

In a development stage company, management devotes most of its activities to establishing a new business. Planned principal activities have not yet produced any revenues and the Company has suffered recurring operating losses as is normal in development stage companies. The Company has **accumulated losses of \$8,070,663 since inception.** These factors raise substantial doubt about the Company's ability to continue as a **going-concern.** The ability of the Company to emerge from the development stage with respect to its planned principal business activity is **dependent upon its successful efforts to raise additional equity financing, receive funding from affiliates and controlling shareholders, and develop a market for its products.**

The Company has no assurance at this time that a commercially feasible design will ever be perfected, or if it is, that it will become profitable. RGUS' profitability and survival will depend upon its ability to develop a technically and commercially feasible product, which will be accepted by end users. The RC/DC Engine which is being developed must be technologically superior or at least equal to other engines that competitors offer and must have a competitive price/performance ratio to adequately penetrate its potential markets. There can be no assurance that REGI U.S. or potential licensees will be able to achieve and maintain end user acceptance of its engine. A number of rotary engines have been designed over the past 70 years but only one, the Wankel, has been able to achieve mechanical practicality and any significant market acceptance. If the Company is unable to achieve this condition or if it doesn't remain technologically competitive, it may be unprofitable and its investors could lose their entire investment.

There can be no assurance that RGUS or its potential licensees will be able to achieve and maintain end user acceptance of its engine or the AFVCS. REGI U.S. has not conducted a formal market survey but statistics available on the aircraft, marine and industrial markets alone indicate an **annual market potential of more than one hundred million dollars.**

Since its present plans do not provide for a significant technical staff or the establishment of manufacturing facilities, RGUS will be primarily dependent on others to perform such functions and to provide the requisite expertise and quality control. There is no assurance that such persons or institutions will be available when needed at affordable prices. It will likely cost more to have independent companies do research and manufacturing than for REGI U.S. to handle these resources.

While not a highly competitive business in terms of numbers of competitors, the business of developing engines of a new design and attempting to either license or produce them is nonetheless difficult because most existing engine producers are large, well financed companies which are very concerned about maintaining their market position. There is no assurance that REGI U.S. will be successful in meeting or overcoming its current or future competition.

Its business depends on the protection of intellectual property and may suffer if RGUS is unable to adequately protect its intellectual property. The success of its business depends on its ability to patent its engine. Currently, it has been granted several U.S. Patents. The Company cannot provide assurance that its patents will not be invalidated, circumvented or challenged, that the rights granted under the patents will give it competitive advantages or that its patent applications will be granted.

Rapid technological changes could adversely affect its business. Rapidly changing technology, evolving industry standards and changing customer demands characterize the market for its engines. Accordingly, if RGUS is unable to adapt to rapidly changing technologies and to adapt its product to evolving industry standards, its business will be adversely affected.

Its present officers and directors have other unrelated full-time positions or part-time employment. Some officers and directors will be available to participate in management decisions on a part-time or as-needed basis only. Management may devote time to other companies or projects, which may compete directly or indirectly with that of REGI U.S. Insiders control a high stake of the company, since 6,637,976 common shares, not including currently exercisable options or warrants, are owned by current insiders - representing **control of approximately 25.6% of the total voting power**. Accordingly, the present insiders will continue to elect all of our directors and generally control our affairs. At the present, the Company employs no full time employees. Its success will depend, in part, upon the ability to attract and retain qualified employees. The Company believes that it will be able to attract competent employees, but no assurance can be given that it will be successful in this regard. If RGUS is unable to engage and retain the necessary personnel, its business would be materially and adversely affected.

Bylaws of REGI U.S. provide that it may indemnify any Director, Officer, agent and/or employee as to securities liabilities and on those terms and conditions as are specified in the Oregon Business Corporation Act. Further, RGUS may purchase and maintain insurance on behalf of any such persons whether or not it would have the power to indemnify such person against the liability insured against. This could result in substantial expenditures by the Company and prevent any recovery from such Officers, Directors, agents and employees for losses incurred by RGUS as a result of their actions. Further, the Company has been advised that in the opinion of the Securities and Exchange Commission, indemnification is against public policy as expressed in the 1933 Act and is therefore, unenforceable.

The Company's areas of business may be affected from time to time by such matters as changes in general economic conditions, changes in laws and regulations, taxes, tax laws, prices and costs, and other factors of a general nature which may have an adverse effect on the business of REGI U.S. At present, only a limited public market exists for the common stock on the over-the-counter bulletin board maintained by the National Association of Securities Dealers (NASD) and there is no assurance that a more active trading market will develop, or, if developed, that it will be sustained.

REGI U.S.'s engine products including the spark ignited engine, Diesel engine and Cold Turbine engine will be **subject to various exhaust emissions standards** depending upon the application and the country in which it is produced and/or sold. As each product becomes ready for sale, it will be necessary to have the engine certified according to the standards in effort at that time which could delay marketing and result in higher costs. Although RGUS has no key customers at the present time, it expects that if its development work is successful, it will likely become dependent, at least initially, upon one or very few key customers. Such dependence could prove to be risky in the event that one or more such potential customers were to be lost and not replaced.

Trading in the shares will continue to be subject to major fluctuations for the foreseeable future. The **stock is thinly traded at prices around \$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 RGUS 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 RGUS will rank it as a relatively illiquid security** and we are unable to determine the direction of trading volumes 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 securities are 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 RGUS, subjecting NASD broker-dealers to additional sales practice and disclosure requirements.

Further elaboration on these above-mentioned and other risk factors are contained in the company's **SEC filings in Form(s) 10-KSB or 10-QSB and readers are encouraged to consult these documents.**

MANAGEMENT TEAM & BOARD OF DIRECTORS

Directors and senior management are amply motivated through a stock option plan and share ownership in both companies that provides an incentive to partake in result-outcome work. The Robertson family is very much involved in the day-to-day management of the companies. The Company contracts consultants for all its product development work. The following is a short summary of the background of senior management:

John G. Robertson – President, CEO & Chairman and Director of REGI US and REG

Mr. Robertson has been the company's Chairman, President and Chief Executive Officer since its formation. Since October 1984 Mr. Robertson has been President and a Director of REG Technologies Inc., a British Columbia corporation listed on the TSX Venture Exchange that has financed the research on the Rand Cam/RadMax™ Engine since 1986. REGI U.S. is controlled by Rand Energy Group, Inc., a British Columbia corporation of which REG Technologies Inc. is the majority shareholder. REGI U.S. owns the U.S. rights to the Rand Cam/RadMax™ technology and Rand Energy Group, Inc. owns the worldwide rights exclusive of the U.S. Mr. Robertson is President, Principal Executive Officer and a member of the Board of Directors of IAS Communications, Inc., an Oregon corporation traded on the OTC bulletin board, which is developing a new type of antenna system. Since June 1997 Mr. Robertson has been President, Principal Executive Officer and a Director of Information-Highway.com, Inc., a Florida corporation, which is currently inactive, and its predecessor. He is also the President and Founder of Teryl Resources Corp., a public company trading on the TSX Venture Exchange involved in gold, diamond, and oil and gas exploration. He is also President of Linux Gold Corp., a public company trading on the OTC Bulletin Board. Since May 1977 Mr. Robertson has been President and a member of the Board of Directors of SMR Investments Ltd., a British Columbia corporation engaged in the business of management and investment consulting.

James Vanderberg – Chief Financial Officer, Chief Operating Officer and Director for REGI US and REG

Mr. Vandeberg became a Director of the Company in November 1998 and its Chief Operating Officer in August 1999. Mr. Vandeberg is an attorney in Seattle, Washington. He has served as legal counsel since 1996. Mr. Vandeberg's practice focuses on the corporate finance area, with an emphasis on securities and acquisitions. Mr. Vandeberg was previously general counsel and secretary of two NYSE companies. He is also a director of Information-Highway.com, Inc., a Florida corporation traded on the OTC Pink Sheets. He is also a director of IAS Communications Inc. an Oregon corporation traded on the OTC bulletin board. Mr. Vandeberg is also a director of Reg Technologies Inc., which is traded on the OTC bulletin board. Mr. Vandeberg is also a director of ASAP Show Inc. since 2005. He is a member and former director of the American Society of Corporate Secretaries. He became a member of the Washington Bar Association in 1969 and of the California Bar Association in 1973. Mr. Vandeberg graduated cum laude from the University of Washington with a Bachelor of Arts degree in accounting in 1966, and from New York University School of Law in 1969, where he was a Root-Tilden Scholar.

Brian Cherry – Vice President – Rand Cam/RadMax™ Technology

Mr. Cherry joined the Company in 2004 and spearheaded the development of the Rand Cam/RadMax™ Technology development and patented a much improved version of the Technology known as the Rand Cam/RadMax™/Direct Charge Engine in 1996. He is currently the project manager in charge of developing a Rand Cam/RadMax™ electric generator for hybrid electric vehicles and for residential uses. He oversees and prepares submissions of new patent applications for the Rand Cam/RadMax™ technology.

Susanne M. Robertson – Director for REGI US and REG

Mrs. Robertson has been a Director of the Company since 1984, and is also the wife of John She has been active in the management of the Company since inception. She is also a Director number of junior resource companies and the principal shareholder of SMR Investments Ltd.

Jennifer Lorette – Vice-President, Administration and Director of REGI US and REG

Ms. Lorette became a member of the board of directors in January 2001. She has been Vice President since June 1994, and was also previously Chief Financial Officer. Since 2001 she has also been a director for REG Technologies, Inc., a British Columbia corporation listed on the TSX Venture Exchange that has financed the research on the Rand Cam/RadMax Engine since 1986. REGI U.S. is controlled by Rand Energy Group, Inc., a British Columbia corporation of which REG Technologies Inc. is the majority shareholder. Since February 1995 Ms. Lorette has been Secretary and a director of IAS Communications Inc., an Oregon corporation traded on the OTC Bulletin Board. Since June 1997 Ms. Lorette has been Executive Vice President and a Director of Information-Highway.com, Inc., a Florida corporation traded which is currently inactive, and its predecessor. Since November 2000 Ms. Lorette has also been a director of Linux Gold Corp. Since February 2001 Ms. Lorette has been a director of Teryl Resources Corp., a public company trading on the TSX Venture Exchange involved in gold, diamond, and oil and gas exploration.

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

Robert Brooks – Advisor

Mr. Brooks began his in depth study of the Wankel rotary engine in 1963. He has since become recognized as one of the most knowledgeable specialists in the rotary engine field. Mr. Brooks has conducted numerous lectures and seminars on the rotary engine and has carried out specific studies of related subjects for clients in the United States and Europe.

INVESTMENT THESIS AND RECOMMENDATION

REGI U.S., Inc., is a development stage company that is in the business of designing, developing and manufacturing an internal combustion diesel rotary engine. The lightweight engine is designed to run more efficiently with greater power per pound of weight and run quieter and cleaner than most other known piston engines in today's market. Our analysis suggests that RGUS Inc. is an revolutionary speculative play among nano-cap companies offering exposure to the investor on new engine technology that holds great promise of being on the verge of commercially implementation within various civilian and military applications, that holds potential to generate lucrative future revenue streams.

REGI U.S. and its parent, REG Technologies, have been involved in research and development of the Rand Cam/RadMax™ engine since 1987. The company's goal is to either license its technology or to participate in joint ventures to manufacture specific Rand Cam/RadMax™ applications. The company has completed the design and fabrication phase for a diesel engine for unmanned aerial applications. REGI U.S. plans to develop a Rand-Cam™ generator for hybrid car applications. Except for the Wankel rotary engine built by Mazda of Japan, no clear competitor that we are aware of, presently produces in a commercial quantity any rotary engine similar to the engines that REGI U.S. is developing.

Worldwide attention to REGI U.S.'s Rand Cam/RadMax™ has grown significantly during the past year. The company recently exhibited at the London World Money Show attended by leading global media companies, investing and trading experts. Several major defense contractors from both the U.S. and Europe has expressed serious interest in the company's unique engine. Since that time, the company has shared information with major interested companies under the protection of nondisclosure agreements.

The Rand Cam/RadMax™ (the advanced new version of the Rand Cam engine) 125 H.P. and 42 H.P. prototype engine built by Radian for spy plane applications is currently being tested by REGI U.S., Inc. REGI U.S. also has built a Rand Cam/RadMax™ air conditioning compressor for use in commercial buses. Other commercial applications include portable generators the size of a microwave oven that can run on propane or natural gas and produce enough power for the average family home – ideally suited for residential markets where power outages are frequent or a concern for health or other reasons and can also be used in hybrid electric automobiles.

The market for the REGI U.S. Rand-Cam™ technology is titanic, estimated at more than \$200 billion worldwide. If the company is successful in securing licensing agreements, there is a clear potential for significant revenue. And with the likelihood for greatly increased patent control, that revenue could grow exponentially in the coming years.

Both operating and financial risk involved in investing in a young auto parts technology company are typically high and should be considered by investors. In this case the financial and commercial risks associated with most of the early and mid-stage technology companies include, risks associated with the R&D, testing, and expansion of the firm that requires a huge amount of investment. It is still questionable at this point in time, if the company can successfully raise the funds for the necessary expansion. But once the company becomes profitable, it can utilize many financial vehicles to raise the money. There is also no assurance that RGUS will achieve commercial success with its offerings that are currently in testing phase. All of REGI's products are new in the market, hence the market penetration may be low.

Readers should understand that there can be no assurance that the company will be able to fast-track its path towards making inroads into the target market for its products, that will flow through directly to the top and or bottom line to build a consistent longer term profitable track record to enrich shareholder value. The speed of adoption of its revolutionary Rand Cam/RadMax™ engine technology is one of the biggest unknowns and does and will play a material role in the financial performance of RGUS in the short, medium and long term. Having said that, RGUS has seen a high level of interest from several companies to incorporate this unique technology in Rand Cam/RadMax™ applications that can be used in the defense industry for military purposes or in areas such as transportation, power generation and other civilian applications.

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 RGUS 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 this promising patented technology that can be utilized in a multitude of areas, be unlocked and reflected in the stock price. Medium term we expect RGUS stock to advance from its present price level. We acknowledge that our 12-month price target of \$5.50 appears optimistic at first glance, but we believe it will be attainable and will be propelled higher if our assumption is correct that FY2007 will produce a ramp in revenues as the technology is commercialized. Our Revenue forecasts for RGUS is shown in the table on the following page where we assume the company can surpass the \$50 million annual revenue mark in FY2009 and exceed over \$100 million during the FY2011-FY2012 timeframe.

One of the primary competitive advantages that the Rand Cam/RadMax™ possess, is that it is the first rotary motor ever that can run on diesel which has some pretty significant implications in the industrial and heavy-duty equipment markets as well as consumer vehicles and possible defense applications, that can raise the velocity of adoption. One of the core reasons which is pivotal to our bullish argument for upside in RGUS, follows from our interpretation of the data and analysis of what we perceive to be an unparalleled opportunity to capitalize on a major market opportunity where ownership of a new technology will be unveiled that can challenge the conventional combustion engine with its piston design. We believe that since RGUS can offer a major increase in performance and energy efficiency and major reductions in servicing costs, there will be great potential for its product and an incentive for companies and individual consumers to make a switch. A simple example would be a company that makes generators – because Rand Cam/RadMax™ motors are so much more durable they can achieve significant profit performance simply through the increase in power efficiency and the reduction in service and warranty returns because it is so much more durable and smaller in size. Secondly the Company recently has extended its new patent application for an additional 20 years. This should have a notable favorable impact on its long-term profit outlook.

REGI U.S., Inc. / REG Technologies has been pursuing large contracts for its products in the United States, Europe and Asia. In China it is estimated there will be demand for 75-million autos in the coming decade and those vehicles must be energy-efficient by necessity. The Rand Cam/RadMax Engine™ has the potential to transform the entire internal combustion engine market. REGI U.S., Inc./ REG Tech's Rand Cam/RadMax™ Technology is already beginning to attract major industry interest, which has resulted in several nondisclosure agreements. The company is now in the final steps before moving to a commercial production platform and has deals in discussion with very significant players in the defense, automotive and alternative vehicle sectors.

In simplest terms – switching a conventional motor to ethanol-based fuels can improve energy-efficiency by approximately 20%, according to RGUS/REG Tech CEO John Robertson. "Changing the motor that drives the vehicle to the Rand Cam/RadMax™ technology can increase energy efficiency to a whole different level." As a result, the market for Rand Cam/RadMax™ technology is potentially enormous and is estimated at greater than \$200 billion worldwide. REGI U.S., Inc. / REG Technologies is now ready to capitalize on 16 years of exceptional development as it transitions from R&D to commercialization.

The Rand Cam/RadMax™ motor can run on electricity, hydrogen, regular gasoline, biofuels and diesel. In the latter instance – it is the first rotary motor ever capable of running on diesel. In extensive laboratory testing the fuel-efficiency indicators have been difficult to measure using the conventional indices of the auto industry. The Rand Cam/RadMax engine has an enormous range of potential applications. Motors are everywhere - from the tiny weed-trimmer to the automobile to hybrid vehicle applications, industrial motors and jet engines. It is findings such as these that have been drawing the interest of all major industries where reducing energy costs and increasing efficiency are of paramount importance.

REGI U.S., Inc. / REG Technologies is now ready to capitalize on 16 years of exceptional development as it transitions from R&D to commercialization. It is currently introducing the Rand Cam/RadMax™ technology to a range of military contractors and auto manufacturers. License agreements have the potential to generate significant revenue over the next few years. Military contracts alone could result in very significant revenue streams moving forward as awareness of Rand Cam/RadMax continues to expand in the marketplace.

We have made certain assumptions regarding the market penetration of the Rand Cam/RadMax™ engine technology into several industries such as the diesel engine, military, hybrid electrical vehicle, portable power, pumps and compressor markets etc. and have arrived at revenue and net income forecasts for the next 6 financial years starting FY2007 through FY2012 for RGUS. These numbers together with net operating margins (%) and earnings per share (EPS) estimates are provided on the table found on the following page (SEE TABLE on PAGE 17).

Using these numbers in conjunction with a forward PE methodology, where we have applied individual PE multiples for each of the respective years shown below, and thereafter discounting at the required rate of return (k) which is a function of the risk-free rate and market rate of return, together with the stock's beta measure, to obtain present values for the stock price, and ultimately arrive at a valuation framework for REGI U.S. (RGUS).

Given these calculations and our bottom up analysis, which is also qualitative in nature, we set a 12-month target price for the security of \$5.50. Our 12-month target price implies a market capitalization of \$142.6 million, representing a price to sales multiple of 1.14x our 5 year out revenue projection of \$125 million in FY2012. This price to sales multiple is in line with the sector average PE and we believe that this revenue projection is attainable as it assumes less than 0.5% market share of the identified target market of this novel technology developed by RGUS.

	EPS Forecast	Revenue Estimate	Net Income Estimate	Net Oper Margin %	Forward PE multiple	EPS Growth	Forward Price	Discount Rate (k)	Present Value
		(\$million)	(\$million)						
FY 2007	0.011	7.000	0.280	4.0%	16.0	NA	0.17	10.4%	0.164
FY 2008	0.044	23.000	1.150	5.0%	16.0	311%	0.71	10.4%	0.612
FY 2009	0.065	42.000	1.680	3.5%	15.5	46%	1.00	10.4%	0.785
FY 2010	0.111	67.000	2.881	3.5%	14.7	71%	1.63	10.4%	1.157
FY 2011	0.136	93.000	3.534	3.8%	14.7	23%	2.00	10.4%	1.286
FY 2012	0.169	125.000	4.375	3.5%	14.7	24%	2.48	10.4%	1.442
TOTAL									5.4458
Assumptions		Beta	2.60	R_m	6.8%				
$k=R_f+(R_m-R_f)*\text{Beta}$		R_f	4.50%	k	10.4%				

All factors weighed, we anticipate a stake in RGUS still has compelling upside potential in the coming 12-24 months in light of the fact that negligible value is assigned to the probability of a successful near term launch and commercialization of its technology. Readers should be note that our price target and valuation framework is more conservative that some other reports on this technology and that actual financial performance may even exceed our estimates.

We HIGHLIGHT to the reader that our bullish view and forecasts for RGUS is made under the assumption that the company is able to commence revenue generation in FY2007 through licensing and other agreements. It is also made assuming RGUS can achieve at least a 0.25% market share over a 5 year horizon and that the technology is adopted in one or more applications. Moreover, we believe that the present market for RGUS shares is far from efficient, does not fully reflect the leverage possible from a ramp in revenues that we expect and developments that can result in further agreements with defense companies and companies seeking to employ this technology in enhanced, more efficient civilian applications. Our forecast is made under the assumption that the company can attain or better our net operating margins and EPS targets as specified for each of the years cited above.

We regard the present market capitalization as modest in light of the vast potential of the Rand Cam/RadMax™ rotary engine and size and scope of the market for this intellectual property. Under these assumptions we initiate coverage on RGUS with a SPECULATIVE STRONG BUY rating. We see a lot of room for growth off such a low base. In our opinion there is no reason why it shouldn't continue to observe an increase in the stock price to reflect financial progress once sales traction is evident in coming quarters, especially now that REGI U.S. is approaching the commercialization stage. So this is a very exciting time in the history of this company and its shareholders.

Risk to our recommendation include amongst other: failure of testing of prototypes to transit into commercial projects and marketing and licensing agreements to come on-stream as projected with one or more large players, unforeseen difficulties or delays in the near or medium term from testing phases and negotiations with potential partners, slow market penetration after commercial launch that will lead to lower than expected revenues and profits and a contraction in forward PE multiple assumptions and dampen the valuation, a steep rise in production costs or unanticipated problems to maintain favorable terms negotiated with partners under such or other conditions, new fees/costs and/or any adverse regulatory changes in the markets it conducts operations. New competition in its market by other larger better capitalized rivals, accounting changes that has an adverse impact on the market's perception of shareholder value, 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, paid for services or if warrants are exercised that dilutes common shareholder interest, 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 (nano-cap) and risks involved, overall we advise positions be limited below 5% of the client's total portfolio size.

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

Charts For REGI U.S. Inc.

RGUS

2 Year Price - RGUS

Oct 20, 2006



ANALYST CERTIFICATIONS

APPENDIX A-1

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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