



OriginOil, Inc.

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MARKET DATA

Symbol	OOIL
Exchange	OTC BB
Current Price	\$0.32
Rating	Speculative Buy
Outstanding Shares	159.42 Mn
Market Cap.	\$51.01 Mn
Average 3M Volume	80,919

Source: Yahoo Finance,



OOIL daily



Company Introduction

OriginOil Inc. (OOIL) is developing a portfolio of new technologies for producing oil from algae, a next-generation biofuel feedstock that may yield 30 times more energy per acre than crops such as soybeans. The biofuel produced by the OriginOil System can replace petroleum in various applications such as diesel, gasoline, jet fuel, plastics and solvents. In addition, by-products of algae oil extraction can be used for animal feed. By creating a biofuel that replaces fossil fuel, OOIL also helps producers garner saleable carbon credits. The OriginOil System may be operated as a stand-alone production system or connected in a parallel network. OOIL's proprietary process is supported by intellectual property assets that include eight patent filings and two international Patent Cooperation Treaties (PCT).

Efficiently producing oil from algae in a closed system requires achieving a high daily output of algae, which in turn requires the right combination of water, sunlight, nutrients and carbon dioxide, as well as a highly optimized growth process.

The cultivation system, known as the Helix BioReactor™, is designed to increase and optimize photosynthetic growth of algae. This system has been deployed in laboratory prototypes and expanded for use in pilot systems. In late 2008, OOIL introduced an automated version of its Helix BioReactor™ system, which makes large-scale commercial algae production scalable.

To help dissolve nutrients in the growth phase, the Company developed the Quantum Fracturing™ process, which breaks down CO2 and other ingredients into very small particles so the algae can feed most efficiently.

The same process is used in the extraction phase, at much higher pressure, generating ultrasound to break down algae cells, much in the same way high-frequency sound waves break glass. This is combined with electromagnetics and pH modification to bring about oil extraction, and self-separation of oil, water and biomass. Recently, the Company also announced advances in automated process control, LED-based lighting and continuous live oil extraction.

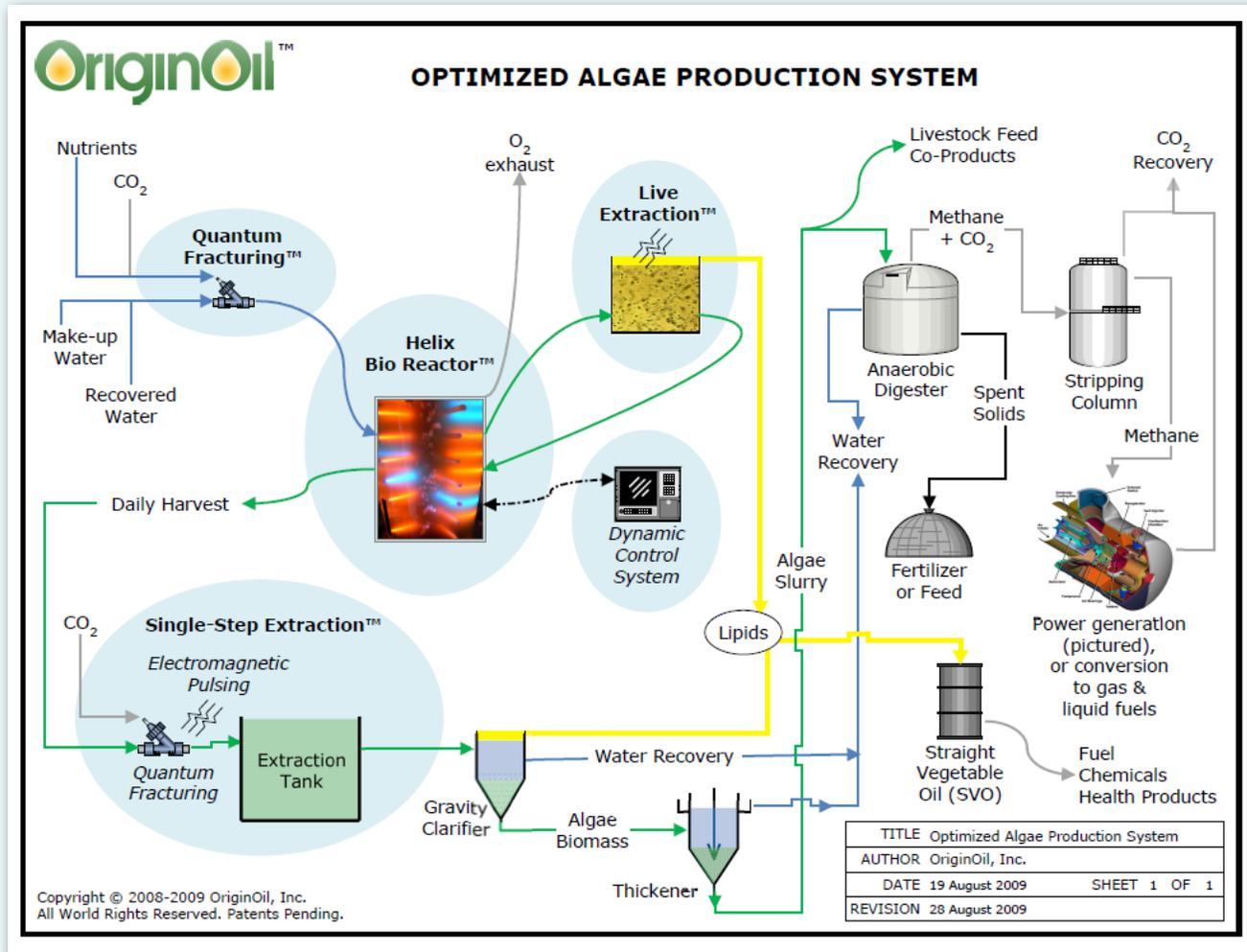
Technology Update

Unlike many current approaches to algae oil cultivation, the Company is making rapid progress toward commercial production by developing multiple next-generation technologies that together enhance the overall oil extraction production process and create a high-yield, cost-competitive petroleum replacement.

The Company's patent-pending technologies help algae cells grow at their maximum natural rate - doubling the algae population in just a few hours. Harvesting and oil extraction are controlled in a high-speed, round-the-clock production process. Instead of waiting years for algae to become oil, OOIL's technology can transform algae into oil in a matter of days.

OOIL's Algae Production System

- 2007: Quantum Fracturing™: Achieves optimal distribution of CO₂ and nutrients in the algae.
- 2008: Helix BioReactor™: Enables multiple vertical growth planes by optimizing delivery of light.
- 2008: Modular and Scalable Growth System: Horizontal and vertical "stacking" of Helix BioReactors into a network of growth units.
- 2009: Optimizing Photosynthesis in a Photo Bioreactor: Additional improvements in photosynthesis using artificial lighting.
- 2009: Single-Step Extraction™: A simplification of the harvesting process; combines Quantum Fracturing™ with electromagnetics and pH modification to bring about oil extraction, and self-separation of oil, water and biomass.
- 2009: Dynamic Control System: Bio-feedback process that improves energy efficiency and growth rates by ensuring the right types and amounts of light are used during the algae growth to maturity.
- 2009: Live Extraction™: Achieves continuous production of algae oil without destroying algae cell.
- 2009: Methods and Apparatus for Growing Algae on a Solid Surface: a production system using a type of algae that attaches itself to growth surfaces.



Source: <http://bit.ly/OOILSystemDiagram>

Development of Industry Production Model

As noted in our previous update, in September of 2009 OriginOil executives unveiled a new algae productivity model at the National Algae Association's Quarterly Conference in Houston, Texas. An industry first, this model was developed with the Idaho National Laboratory (INL) of the Department of Energy under its collaborative research agreement with OriginOil.

In January 2010, the Company announced a partnership with StrategicFit, a London-based strategy consulting firm with world-class analytical capabilities. The firm will focus on increasing the robustness of the Company's Algae Productivity Model by refining underlying assumptions and process logic. The firm claimed that time sensitivity will now be added to the model, with a 20-year horizon that includes discounted cash flow variables, time for R&D and scale-up, and ROI estimates based on a waterfall analysis. Application modules will be developed for specific synergistic settings such as wastewater treatment and biodiesel refining.

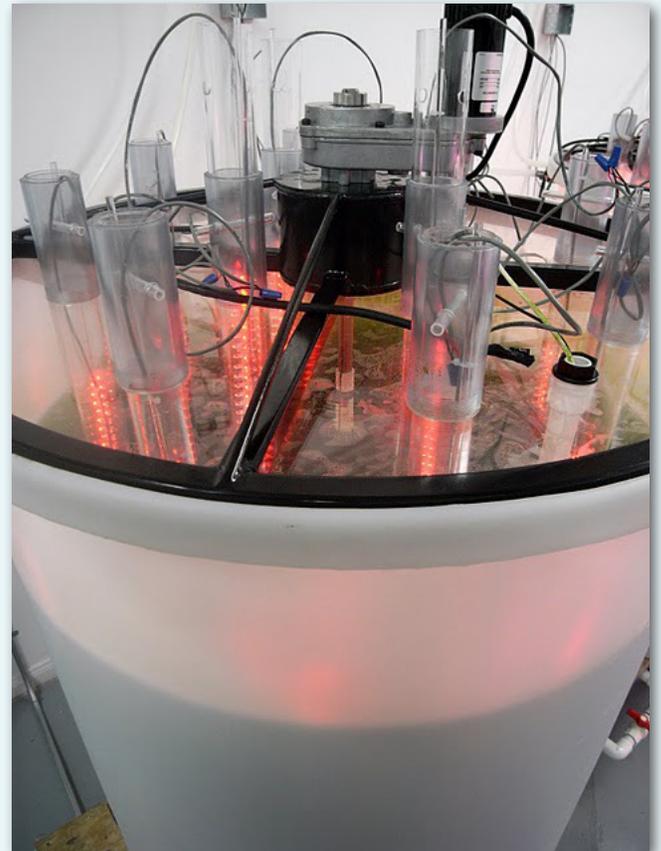
Unveiling of End-to-End Pilot System

In January 2010, OOIL publicly unveiled a complete, end-to-end pilot system combining all of its technology innovations in a single full-loop system, which consists of a series of highly-configurable 200-gallon tanks. As a result, the Company is now able to optimize production at the pilot scale.

Algae Pilot System In Early Testing



Algae growing in a 200-gallon tank



Source: <http://bit.ly/OOILPilotPhotos>

Algae Daily Harvest Constant Discovery

In January 2010, OOIL researchers announced the discovery of a Daily Harvest Constant for algae. Senior Research Engineer Dheeban Kannan, Ph.D. discovered the amount of algae that could be harvested on a daily basis appears to be constant regardless of the concentration of algae. In a series of experiments, he found the amount that can be harvested in the organism's steady state stabilizes at a specific level of algae biomass per day, regardless of the concentration of algae. This is a critical finding that permits further optimization of the Company's algae production model. Daily algae harvesting will facilitate industrial levels of production.

The discovery of a Daily Harvest Constant will allow OOIL to optimize the algae production cycle around the lowest possible concentration that can still deliver continuous daily production. The Company plans to collaborate with Idaho National Laboratory and IIRMES (the research laboratory of Cal State University Long Beach) to continue algae growth testing in different configurations and scales.

OOIL's ongoing research with Idaho National Laboratory focuses on developing viable models for commercial production of algae for biofuels and other value-added products. In Phase 1 of the Cooperative Research and Development Agreement (CRADA), the partners identified a comprehensive mass-energy balance for OOIL's proprietary process. Phase 2 will focus on further process validation, economic modeling and improved biomass logistics for scale up of algae biomass production.

Algae-to-Jet Fuel Project Partnership

The Company is partnering with Japan's Research Institute of Tsukuba Bio-Tech (RITB) on an Algae-to-Jet Fuel Project. The Japan Science & Technology Agency (JST) has awarded RITB funding to cover two years of project R&D, based on its proposal to the agency.

RITB is headed by Tsukuba University Professor Emeritus and leading algae researcher Takaaki Maekawa, PhD. RITB signed a Memorandum of Understanding with OOIL, which will allow it to develop and distribute systems in Japan for aircraft fuel production, algae-to-oil production, and other industrial applications. RITB will rely on OOIL for the necessary technology and resources to complete this project.

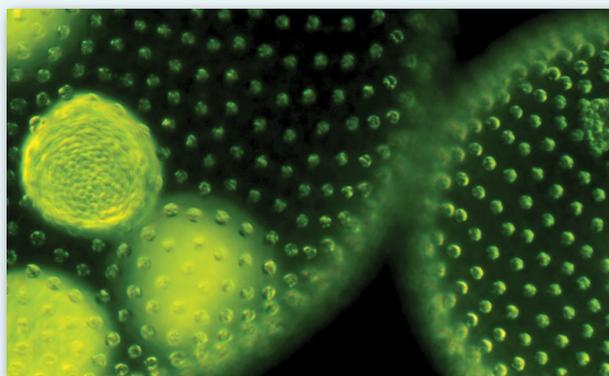
Last year Japan Airlines made a successful test flight of a aircraft powered by biofuel. The fuel was a blend of camelina, algae and jatropha. Tests conducted by the aircraft pilot indicated that this fuel blend was more fuel-efficient than traditional kerosene.

Technology Commercialization Initiatives

The Company has signed a Memorandum of Understanding (MOU) with Desmet Ballestra, an international pioneer in oil and fats technologies, to embed OOIL's Single Step Extraction System™ into Desmet's next-generation algae oil extraction systems..

Finalizing an agreement with Desmet Ballestra will help OOIL begin commercializing its algae-to-fuel technology on a global scale. Single-Step Oil Extraction technology benefits Desmet by improving its algae oil extraction efficiency. In early studies, Desmet and OOIL estimated energy efficiency gains as high as 90% in certain configurations.

Based in Belgium, Desmet serves the international seed crushing, oil refining, oleochemical, surfactant and detergent markets. It has operations in Egypt, Nigeria, Sudan, Argentina, Brazil, Columbia, Mexico, the United States, China, India, Malaysia, Singapore, South Korea, Taiwan, the United Arab Emirates, Belgium, Bulgaria, Romania, Russia, Spain, Turkey and the United Kingdom.



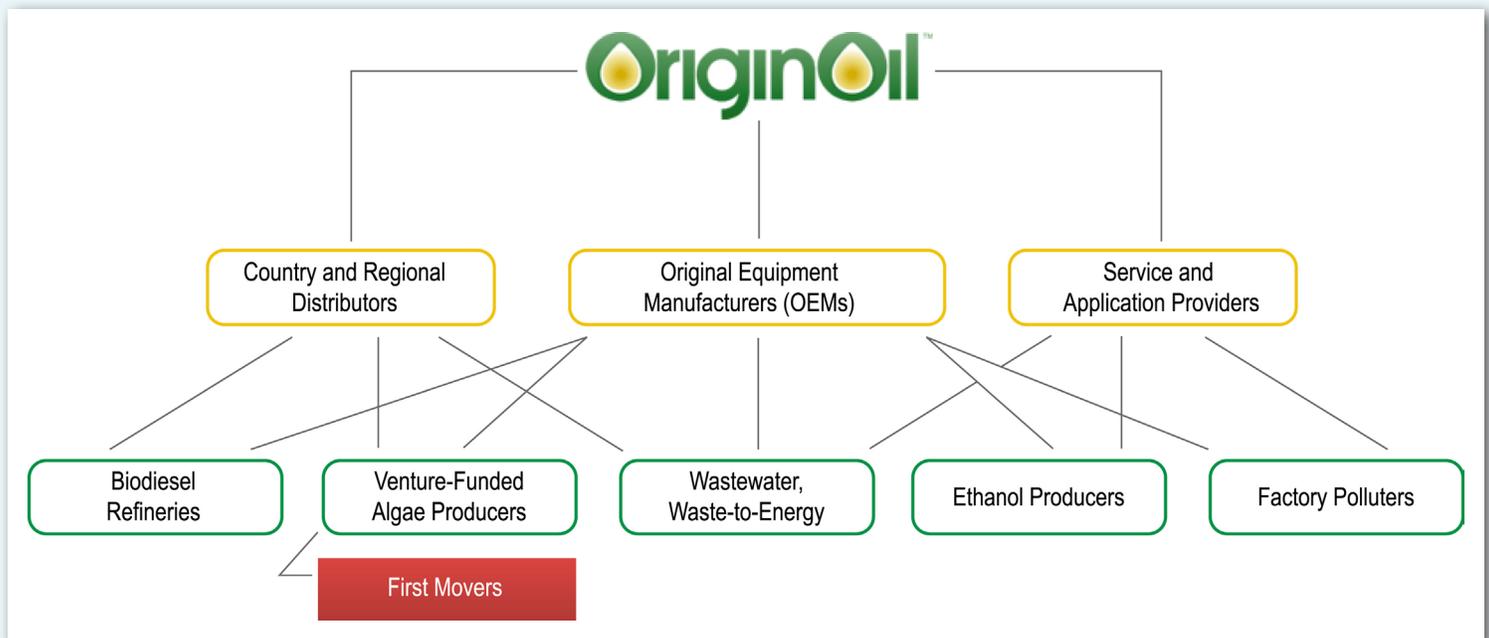
Growing Visibility of OOIL Technology

OOIL CEO Riggs Eckelberry described the algae-to-biofuel opportunity in a keynote address at the Next Generation Biofuels Feedstocks conference, which was held in San Francisco on November 16, 2009. Eckelberry joined representatives from the U.S. Department of Energy, Algae Biomass Organization, Green Flight Foundation, Solazyme, Energy Biosciences Institute and Monsanto as a keynote speaker.

Eckelberry spoke to an audience of biofuels executives and scientists. Commenting on the industry's direction, he compared today's biofuel industry to the Internet's development in 1992, noting that biofuel demand could explode just as quickly as the Internet did. He observed that biofuels are unfairly compared to other technologies such as solar or wind, which would cost trillions of dollars and take decades to deploy. He also pointed out that biofuels are the only renewable energy able to leverage the existing fossil oil infrastructure, thus eliminating the need for trillions of dollars of new energy infrastructure investment.

Eckelberry advocated replacing the "Old Energy" centralized approach with a "New Energy" distributed system, and suggested OOIL's Distributed Partnership Model, described below, may be part of the solution.

Distributed Partnership Example



Source: <http://bit.ly/OOILThisIs1992>

OOIL Selected As Among "Hottest 50 Bioenergy Companies"

For the second year in a row, OOIL was selected as among the "Hottest 50 Bioenergy Companies" by Biofuels Digest, which publishes the world's most widely-read biofuels daily newsletter. The Company advanced in rank from No. 45 to No. 42 in the 2009 list and was a stand out in a hotly contested field of more than 1,400 companies working in algae, ethanol, renewable diesel and biobutanol. The "Hottest 50" selections were made

by an international panel of invited judges and subscribers to the daily newsletter. The judges ranked OriginOil No. 38 on the list.

According to Jim Lane, the Biofuels Digest editor, 13 of the top 50 biofuel companies are working on micro-crops and algae-based biofuels, including three of the top five.

Financial Analysis

OOIL is developing a technology for cost-effectively producing biofuel from algae. The Company plans to eventually license its technology, but will begin by commercializing its technology through sales of systems and services through Original Equipment Manufacturers (OEMs) agreements and distributors. The Company has not yet begun to generate revenues through licensing or sales.

Income statement, \$

	Q3 2008	Q3 2009	% chg	9 months 2008	9 months 2009	% chg
Revenue	-	-	n/m	-	-	n/m
Selling & marketing expense	144,829	85,436	-41.0%	201,560	395,587	96.3%
Administrative expense	246,145	374,137	52.0%	585,551	1,259,937	115.2%
Research & development	78,310	68,641	-12.3%	190,094	290,553	52.8%
Stock compensation expense	0	2,029,650	n/m	0	2,029,650	n/m
Depreciation & amortization	494	13,943	2722.5%	1,062	41,829	3838.7%
Total operating expenses	469,778	2,571,807	447.5%	978,267	4,017,556	310.7%
Operating income	(469,778)	(2,571,807)	n/m	(978,267)	(4,017,556)	n/m
Total other income	5,985	35	-99.4%	23,225	740	-96.8%
Net loss	(\$463,793)	(\$2,571,772)	n/m	(\$955,042)	(\$4,016,816)	n/m
Diluted EPS	\$0.00	(\$0.02)	n/m	(\$0.01)	(\$0.03)	n/m

Source: SEC Filings

The Company's net loss increased four-fold year-over-year to \$4.0 million in the first nine months of 2009 mainly due to higher SG&A and R&D expense and a \$2.0 million increase in non-cash stock compensation expense.

Liquidity and capital resources

Since its inception, the Company has consumed cash flow in its operations. OOIL will likely continue to use cash for the foreseeable future and must continue to raise capital to fund its research and development activities and ongoing operations.

As of September 30, 2009, OOIL had \$710,060 in cash and equivalents as compared to \$380,820 at June 30, 2009. The cash increase reflects a capital infusion provided by an equity financing. In July 2009, OOIL completed a private placement of 6.2 million shares that generated gross proceeds of \$1.3 million.

Balance sheet \$

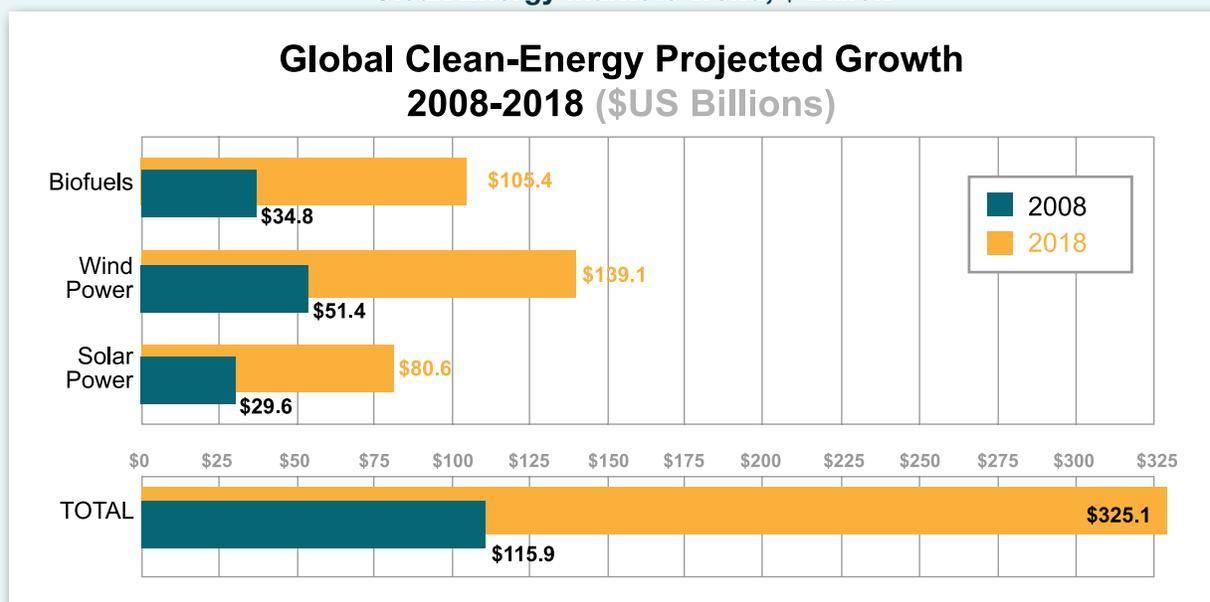
	Dec 31, 2008	Mar 31, 2009	Jun 30, 2009	Sep 30, 2009
Cash and cash equivalents	580,055	216,374	380,820	710,060
Total current assets	596,984	236,031	388,706	729,204
Total other assets	167,726	164,276	150,333	158,148
Total assets	764,710	400,307	539,039	887,352
Total liabilities	70,481	38,292	38,504	14,239
Total shareholders' equity, including	694,229	362,015	500,535	873,113
Accumulated deficit	(1,952,369)	(2,622,883)	(3,397,413)	(5,969,185)

Source: SEC Filings

In July 2009, the Company established an Incentive Stock Plan designed to help retain key executives, employees and consultants and reward them for their contributions to OOIL's success. Under the plan, 15 million shares of the Company's stock were reserved for use. As of October 16, 2009, the Company had granted 3.6 million stock options to employees at an exercise price of \$0.32.

Industry Outlook

According to Clean Edge, the global cleantech industry continued to move upward in 2008, despite a shaky economy, but industry momentum slowed in 2009. The three major clean energy sectors—solar photovoltaics, wind power and biofuels—combined to produce 2008 revenues of \$115.9 billion, up 53% compared to the prior year, according to Clean Edge's 2009 annual report. Over the next decade, Clean Edge expects cleantech industry revenues to triple¹.

Clean Energy Markets Trend, \$ Billion

 Source: <http://www.cleantech.com/reports/pdf/Trends2009.pdf>
¹ <http://www.xconomy.com/seattle/2009/03/11/clean-energy-industry-revenues-climbed-53-percent-in-2008-forecast-flat-to-down-for-this-year/>

Growth in clean energy investments slowed considerably in 2008; according to New Energy Finance, with new global investment in clean energy increasing by only 4.7% to \$155.4 billion. This is far less than the industry's 60% investment growth in 2007².

U.S. renewable energy market

Domestic renewable energy consumption grew 7% in 2008, despite a 2% decline in total U.S. energy consumption. Total renewable energy consumption increased by 487 trillion Btu to 7,301 trillion Btu. This is the highest level ever attained and reflects expanding use of biofuels, wind and solar energy.

U.S. Energy Consumption by Energy Source, 2004-2008, (Quadrillion Btu)

	2004	2005	2006	2007	2008
Total	100.349	100.485	99.876	101.552	99.305
Fossil Fuels	85.830	85.817	84.690	86.174	83.436
Coal	22.466	22.797	22.447	22.748	22.421
Coal Coke Net Imports	0.137	0.045	0.061	0.025	0.040
Natural Gas	22.931	22.583	22.224	23.628	23.838
Petroleum	40.294	40.393	39.958	39.773	37.137
Electricity Net Imports	0.039	0.084	0.063	0.106	0.113
Nuclear Electric Power	8.222	8.160	8.214	8.458	8.455
Renewable Energy	6.260	6.423	6.909	6.814	7.301
Biomass	3.023	3.133	3.361	3.597	3.884
Biofuels	0.513	0.594	0.795	1.025	1.413
Waste	0.389	0.403	0.414	0.430	0.431
Wood Derived Fuels	2.121	2.136	2.152	2.142	2.041
Geothermal Energy	0.341	0.343	0.343	0.349	0.358
Hydroelectric Conventional	2.690	2.703	2.869	2.446	2.453
Solar/PV Energy	0.065	0.066	0.072	0.081	0.091
Wind Energy	0.142	0.178	0.264	0.341	0.514

Source http://www.eia.doe.gov/cneaf/alternate/page/renew_energy_consump/table1.html

Renewable energy's share of total U.S. energy consumption exceeded 7% in 2008.

Algae venture capital

Algae fuel technology has long been viewed as promising but years away from commercialization because of high production costs and technical issues associated with making the single-cell organism produce viable amounts of oil.

Dozens of companies have begun pilot projects and small-scale production and algae oil-makers are optimistic they can quickly drive costs down by optimizing algae production and capturing economies of scale. Best case scenarios envision algae biofuels priced under \$50 per barrel, but the industry could require decades to reach that pricing level.

Despite the economic downturn, sizable amounts of venture capital and corporate money continued to flow

2. <http://www.cleantech.com/reports/reports-trends2009.php>

into algae-to-fuel research in 2009. Oil giant ExxonMobil is investing \$600 million in algae-to-fuel research and development. Start-up Algenol Biofuels is partnering with Dow Chemical to develop a \$50 million, algae-to-fuel pilot plant employing Algenol's technology. This facility will link sugars produced from photosynthesis with the enzymes required to create ethanol within an individual blue-green algae cell.

Solix Biofuels closed a \$16.8 million financing last year which will be used to complete construction of a demonstration-scale facility. Investors included Shanghai Alliance Investment, London-based I2BF Venture Capital, Bohemian Investments, Southern Ute Alternative Energy, Valero Energy Corp. and Infield Capital. In addition, Solazyme recently raised an additional \$12 million in an interim \$57 million financing round led by Braemar Energy Ventures, Lightspeed Venture Partners and a new investor, VantagePoint Venture Partners. A \$176 million South Korean algae-to-ethanol project recently announced by Kumho Petrochemical is another major industry development. Also, available federal funding estimated at nearly \$800 million for pilot-stage biorefineries is helping to lay the groundwork for rapid deployment of algae-to-fuel technology.

Analyst Summary

OOIL's shares currently trade at around \$0.30. This share price is relatively unchanged since our October 2009 update.

The Company continues to make progress toward licensing its technology and has successfully integrated its Optimized Algae Production System into a single full-loop system. OOIL is further refining this system for deployment on a pilot scale, which moves OOIL closer to commercialization and ahead of most of its competitors.

The Company was recognized as among the "Hottest 50 Bioenergy Companies" by Biofuels Digest for the second consecutive year, OOIL's CEO made a keynote address at the Next Generation Biofuels Feedstocks conference, and the Company is partnering with Japan's Research Institute of Tsukuba Bio-Tech (RITB) on a major Algae-to-Jet Fuel research project.

We continue to rate OOIL shares as a Speculative Buy, based on its technology leadership, growing visibility within the alternative energy segment and huge market opportunity.

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Victor Sula, Ph.D. - Senior Analyst

Victor Sula, Ph.D. has held the position of Senior Analyst with several independent investment research firms since 2004. Prior to 2004, Mr. Sula held Senior Financial Consultant positions within the World Bank sponsored Agency for Restructuring and Enterprise Assistance and TACIS sponsored Center for Productivity and Competitiveness of Moldova, where he was involved in corporate reorganization and liquidation. He is also employed as Associate Professor at the Academy of Economic Studies of Moldova. Mr. Sula earned his Ph.D. degree in 2001 and bachelor's degree in Finance in 1997 from the Academy of Economic Studies of Moldova. Mr. Sula is currently a level III candidate in the CFA program.