

Blue Horizon Industries Inc. (CNSX: BH) - Initiating Coverage – Second Generation Biodiesel Production Expected to Commence in H2-2012

Sector/Industry: Renewable Energy / Industrial / Oil & Gas Exploration / Mining Exploration www.blue-horizon.ca

Market Data (as of January 9, 2012)

Current Price	C\$0.16
Fair Value	C\$0.30
Rating*	BUY
Risk*	5 (Highly Spec)
52 Week Range	N/A
Shares O/S	75.95 mm
Market Cap	C\$12.15 mm
Current Yield	N/A
P/E (forward)	69.1x
P/B	-48.7x
YoY Return	N/A
YoY TSXV	-31.6%

*see back of report for rating and risk definitions



Investment Highlights

- Blue Horizon is constructing its first biodiesel production plant. The plant is expected to be in commercial production in the second half of 2012.
- Five additional biodiesel production modules are scheduled to be completed by mid 2013 (subject to financing).
- We have a positive outlook on the second generation biodiesel market (inputs – waste and cellulose) given the increase in environmental and government regulations, and relatively low feedstock costs compared to the first generation biodiesel market.
- The company also has early stage oil and gas and resource projects. BH has a copper property and a gold property. The copper property is located close to a producing project with 5 billion pounds in proven reserves.
- Recently acquired 2 oil and gas properties, located in Manitoba and Northern Alberta.
- The company completed 100% of its first dismantling project (generated \$1.7 million in revenues) and 80% of the second project (estimated revenues for the entire project - \$20.5 million) before the project was terminated.

Risks

- The company is currently in a working capital deficit position - BH has to raise cash through financing or generate cash flows from its contracting division to fund this deficit.
- BH requires a significant amount of financing for the construction of its biodiesel plants.
- Investors should be aware that there can be delays in construction (associated with the biodiesel plants).
- All of its resource projects are in very early stages. None of its oil and gas/resource projects have resource estimates.
- Ability to secure additional profitable dismantling projects.
- The bio-diesel market is a relatively new industry in Canada.

Key Financials	2010A	2011A	2012E	2013E
Revenues	1,007,113	5,674,108	10,942,583	14,315,676
Net Income (Loss)	(599,023)	(4,730,982)	175,918	419,148
EPS	\$ (0.011)	\$ (0.065)	\$ 0.001	\$ 0.002
Cash and Cash Equivalent	562,179	1,310,994	2,622,892	2,934,686
Working Capital	(558,014)	(1,178,717)	(1,610,967)	(1,056,193)
Debt	252,026	184,241	185,846	187,451

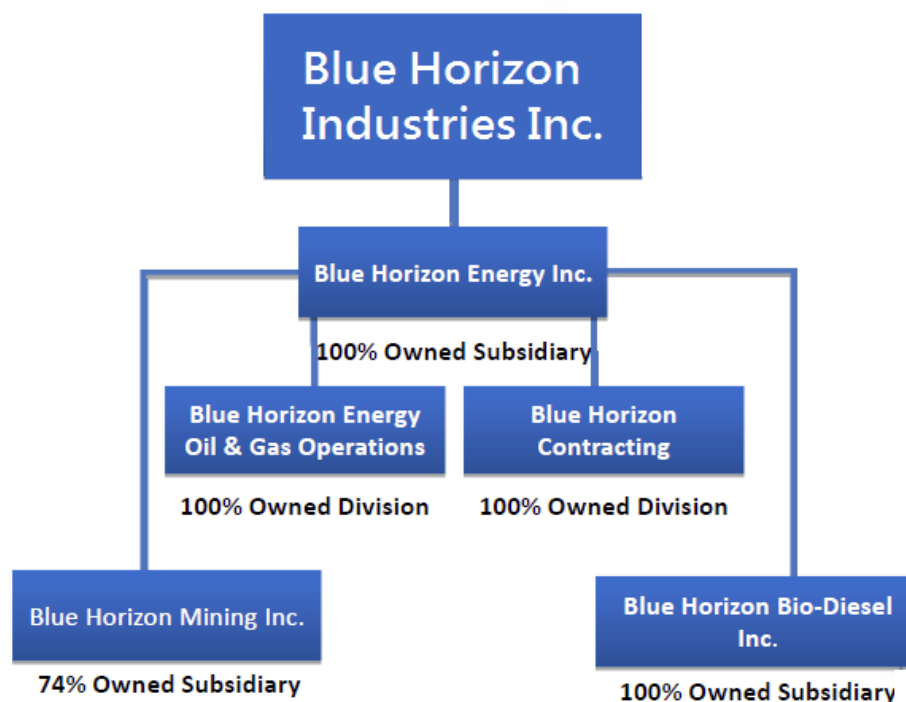
Blue Horizon Industries Inc. is a diversified industrial company with four operating segments - biodiesel, industrial dismantling, resource exploration and oil & gas. The company's shares started trading on the Canadian National Stock Exchange (CNSX) on September 14, 2011.

Company Overview

“1197791 Alberta Ltd.” was founded on October 13, 2005, as a private company under the jurisdiction of Alberta, Canada, and changed its name to “Blue Horizon Energy Inc.” in 2008. It later became public through an amalgamation with MLB Industries Inc. (“MLB”) (a shell company) in August 2011. Blue Horizon Energy Inc. became a wholly owned subsidiary of MLB, and MLB changed its name to Blue Horizon Industries Inc. The company's shares started trading on the Canadian National Stock Exchange (CNSX) on September 14, 2011. The company has 75.95 million shares outstanding with 53% owned by management and insiders.

Business Segments

Blue Horizon Industries Inc., along with three of its subsidiaries, Blue Horizon Energy Inc., Blue Horizon Mining Inc. and Blue Horizon Bio-Diesel Inc, operates in four distinctive business segments – **biodiesel, mining exploration, oil and gas exploration and dismantling contracting**. Blue Horizon Industries Inc. owns a 100% interest in Blue Horizon Energy Inc. and Blue Horizon Bio-Diesel Inc., and owns a 74% interest in Blue Horizon Mining Inc. Blue Horizon Energy Inc. owns 100% of Blue Horizon Energy Oil & Gas Operations and Blue Horizon Contracting. The chart below outlines the corporate structure.



Source: Blue Horizon Industries Presentation

Corporate History

1197791 Alberta Ltd. was founded in 2005 by Mr. Doug Allan (brother of the current CEO, Mr. Don Allan) as a private company. The name was changed to Blue Horizon Energy Inc. in May 2008, and then it went public through an amalgamation with Blue Horizon Industries Inc. (“BHI”) (formerly MLB Industries Inc). The shares of BHI were listed on the Canadian National Stock Exchange (CNSX) under the symbol BH in September 2011.

The following outlines the activities of Blue Horizon (as a private company) from 2008 to August 2011. Prior to 2008, Blue Horizon was primarily inactive.

September 2007 – Acquired **Normandville assets (oil sands project)** from Peace River Oil (P.R.O.) Inc. for \$3.02 million (shares + cash). Mr. Don Allan was the President and CEO of P.R.O. and one of the five owners of the company with a 15% ownership.

September 2008 – Mr. Don Allan appointed as President and CEO, and Mr. Doug Allan resigned as a director and officer.

May 2010 – Acquired Blue Horizon Bio-Diesel for \$840,000 with 5.6 million shares at \$0.15 per share from the sole owner, Mr. Don Allan.

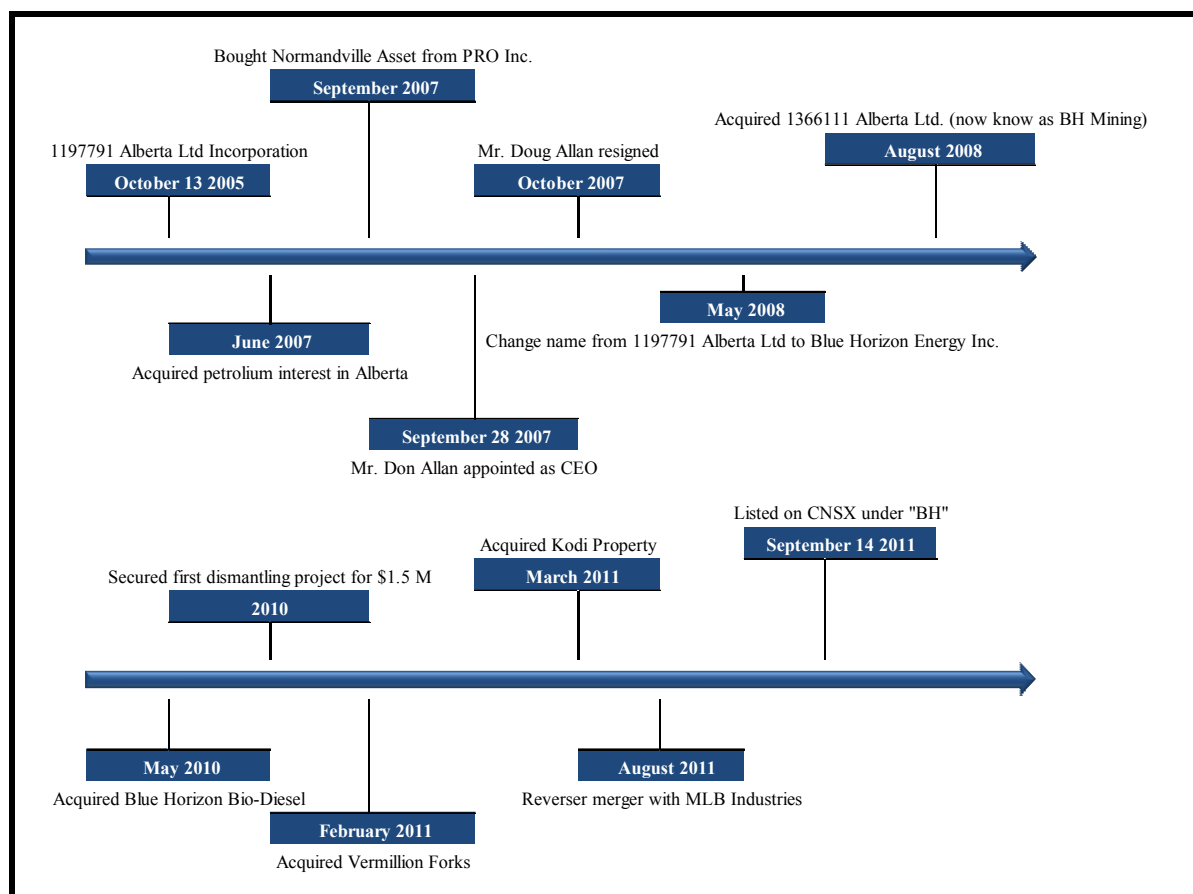
July/August 2010 – Started Blue Horizon Contracting and completed the first project for \$1.66 million in revenues (net margin before tax was 40%). Later secured a second project for estimated revenues of \$20.5 million.

February 2011 – Acquired the **Vermillion Forks Property** in British Columbia, Canada from Wild West Gold Corp. (a private company - it was an arm's length transaction) for a total price of \$2.8 million plus \$2.5 million in exploration commitments. The \$2.8 million comprises of \$1.0 million in cash installments (to be paid through 2016) and \$1.8 million in shares.

March 2011 – Acquired the **Kodi Property** in Salmo, British Columbia, through an arm's length transaction for a total price of \$235,000 plus \$500,000 in exploration commitments. The \$235,000 includes \$160,000 in cash and \$75,000 in shares.

June 2011 – Acquired a 15% interest in the **Waskahigan Property**, a conventional oil and gas property, from Copper Creek Petroleum Inc. (arm's length) for \$187,000 in cash plus \$368,333 for related exploration expenses.

The chart below summarizes the key milestones of Blue Horizon prior to becoming public.



Source: Fundamental Research Corp.

In August 2011, Blue Horizon entered into an amalgamation agreement with MLB Industries Inc. (a shell company). The transaction closed on August 30, 2011, and the company's shares started trading on the CNSX on September 14, 2011, under the symbol "BH".

At the time of listing, Blue Horizon had **two resource exploration projects, two non-producing oil and gas properties, one proposed bio-diesel project and one dismantling project. Blue Horizon issued a total of 73.13 million shares to previous shareholders. The market value of the outstanding shares at the deemed price (\$0.29 per share) was \$21.21 million. Management and insiders own 38.64 million, or 53% of the outstanding shares.**

After Blue Horizon became public, **the company acquired a 100% interest in two non-producing oil and gas properties at Haro, Alberta and Waskada, Manitoba, for a total purchase price of \$700,000 from an unrelated third party.** The amount was paid by issuing 2.8 million common shares at \$0.25 per share, and 1 million warrants with an exercise price of \$0.40 per share and an expiry date of April 12, 2013.

Business Segments

Blue Horizon operates in four distinct business segments. Their primary focus is to become a renewable diesel producer in Canada. The company also has interests in exploration and development stage mining and oil & gas properties. Blue Horizon

Contracting is currently the only revenue generating segment and the company uses the funds from Blue Horizon Contracting to partially fund the development of other segments.

Blue Horizon Bio-Diesel

A discussion on each of the four main segments follow:

Business Strategy

Blue Horizon Bio-Diesel Inc. is a 100% owned subsidiary of **Blue Horizon Energy Inc. which is currently in the development stage to produce second generation biodiesel from waste and cellulose.** *(Note that first generation biodiesel is produced from agricultural products such as canola and corn)*

The company intends to capitalize on the Canadian Government's mandate on Renewable Fuels Standards ("RFS") to sell biodiesel products to diesel producers. The RFS requires a minimum 2% renewable fuel content in diesel fuel and heating distillate oil (including diesel) starting December 2012. This means regular diesel producers will need biodiesel as a blend to meet the standard. **We expect the RFS to be the main driver for biodiesel demand in Canada. Based on diesel demand in 2010, the standard will create 600 million liters in total demand for biodiesel. Current biodiesel production in Canada, according to the Organization for Economic Co-operation and Development (OECD), is approximately 350 million liters per year - which indicates a shortfall of 250 million liters.** *(Note: according to the Canadian Renewable Fuels Association, as of November 2010, total annualized biodiesel production was 204.9 million liters - which would indicate a shortfall of about 395 million liters)*

In 2011, Blue Horizon Bio-Diesel obtained an exclusive patent pending biodiesel technology license (second generation biodiesel technology) from ADP Holdings based in California and EcoTec Fuels LLC based in Germany. **The technology allows the company to transform a variety of feedstocks (waste, used motor oil, wood and paper, etc) into biodiesels with a conversion rate (input to output) of over 90%, at a significantly lower cost relative to first generation biodiesel technology.** Details on the technology are presented later in the report.

The exclusive Canadian sub-license agreement includes a €1.60 million (~C\$2.18 million) licensing fee. Of the total amount, there is an initial licensing fee of €390,000 (~C\$531,570) plus monthly installments of €45,000 (~C\$61,335) starting from October 2011, to March 2013. Also included in the €1.6 million is an ending payment of €400,000 (C\$545,200) before the end of June 2013. *(exchange rate used: €1.00 = C\$1.363)*

In addition to sub-licensing fee, the contract also includes a commitment to purchase a total of 19 biodiesel modules from EcoTec fuels by the end of 2016. Blue Horizon currently has six of the 19 plants planned for construction.

Blue Horizon Bio-Diesel has leased a three acre brown field site with a 44,000 sqft industrial facility, located at Bruderheim, Alberta, Canada (in close proximity to potential buyers such as Shell Canada (NYSE: RDS.B), BP Canada (NYSE: BP), Imperial Oil (TSE:

IMO), Chevron Canada (NYSE: CVX), Husky Energy (TSE: HSE) and Suncor Energy (TSE: SU)). The company intends to install six biodiesel modules within the existing 44,000 sqft facility. The construction of the first biodiesel module is expected to begin in early January 2012, and completed by August 2012. The table below shows the outline of the construction schedule for the six biodiesel modules:

Biodiesel Plant Construction Schedule – Estimated

Biodiesel Plant	Construction Start	Construction Complete
Module #1	January 2012	August 2012
Module #2	April 2012	November 2012
Module #3	April 2012	November 2012
Module #4	October 2012	February 2013
Module #5	October 2012	February 2013
Module #6	February 2013	May 2013

Source: Fundamental Research Corp & Management

Blue Horizon expects to incur an initial investment of \$4.5 million to construct the first module of a 6 module plant (including engineering, permitting and site improvement). **The total expected cost for the six module plant is approximately \$27 million.** As shown in the table above, management expects an eight month construction time for the first three modules, six months for the fourth and fifth, and four months for the sixth module. The main technology (production unit) is being constructed by EcoTec Fuels in Germany, and Blue Horizon will hire contractors to complete the assembly. The company is also in the process of applying for the relevant operation permits which will take ~7 months to acquire.

Management has indicated plans to sell the remaining 13 plants (under the license) while retaining an equity interest, a royalty and management fee. According to management, they have identified a number of prospective buyers and is in discussions with these parties.

There are several government sponsored renewable energy development programs in Canada (discussed in detail later in the report). Blue Horizon is in the process of applying for eligible grants and management expects funding per year will be approximately \$4.0 million over the next few years. The company expects to raise the remaining funds mainly through equity financing with a small portion through debt and asset sales of its non-core resource assets. At this time, we cannot speculate on the outcome of the grant applications, and as a result, we believe the company is exposed to financing risks.

Each biodiesel module is expected to have a minimum 700 liters per hour production capacity (~6.1 million liters per annum based on a 100% utilization rate) while the maximum capacity is expected to be 1,200 liters per hour (~10.5 million liters per annum). We expect production to commence in September 2012, with estimated total production of ~800,000 liters for 2012, and 30.79 million liters by the end of 2013.

Currently, Blue Horizon has not signed contracts with any feedstock suppliers but has identified several potential candidates (according to management). Management intends to initially use “Used Motor Oil (UMO)” and “newspaper/wood chips” as feedstocks.

First Generation Biodiesel vs. Second Generation Biodiesel

First generation biofuels use agricultural-based inputs (feedstocks) such as canola, corn and soy beans. While the final product is much more environmental friendly than regular diesels (fossil fuels), the use of agricultural products as inputs has raised numerous criticism and debate. First generation biofuels have been blamed for the sharp food price increase. On the other hand, there are studies suggesting the difficulties of connecting food prices to biofuel production.

Regardless of the actual effect, the sharp increase in feedstock prices, and drop in crude oil prices, caused several companies to shutdown production during the 2008 – 2009 recession. **This highlights the main risk factor in first generation biofuels - high and volatile input costs.**

This led to the introduction of **second generation biodiesel which uses cellulose based feedstock such as waste, wood and newspapers. The costs of these inputs are significantly lower compared to agriculture based inputs.** For example, in May 2010, Enerkem (a Montreal based private company) signed a 25 year agreement with the City of Edmonton to produce second generation biofuels (mainly methanol and ethanol) from non-decomposable and non-biodegradable municipal waste. According to various reports, the city agreed to provide 100,000 metric tons of waste per year to Enerkem, and to pay Enerkem a fee to process the waste. Overall, Enerkem will be producing and selling biofuels while receiving fees from the government.

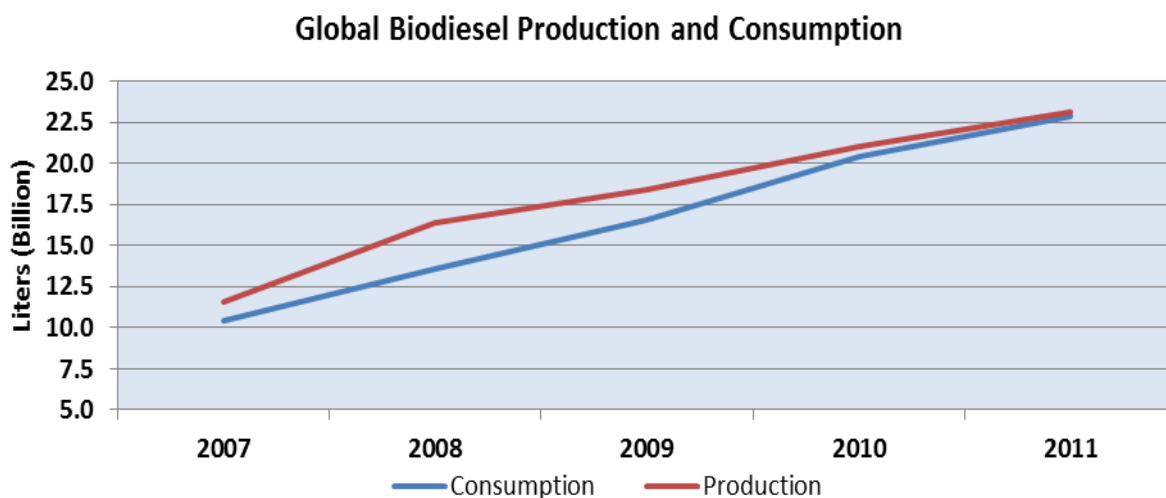
For Blue Horizon, the EcoTec technology they have licensed allows them to switch between multiple inputs like industrial waste (such as used motor oil), plastics, and crude oil, such as bitumen, and combine them with cellulose inputs such as wood, newspapers, municipal waste and biomass. This allows Blue Horizon to switch inputs based on the inputs' availability and price.

In our opinion, second generation biofuels clearly have significant cost advantages over first generation biofuels. **We believe that the input cost (feedstocks) for second generation biodiesel will remain low for the foreseeable future which will be a main competitive advantage for Blue Horizon over other first generation biodiesel plants.**

Global Biodiesel Markets

Demand and supply for biodiesel and other renewable fuels have increased over the past decade mainly due to higher oil price and greater environmental awareness. The world's largest producer and consumer of biodiesel is the European Union, and Argentina is the largest producer among developing countries. According to the OECD, biodiesel consumption in the European Union was 11.96 billion liters in 2010, which was equal to

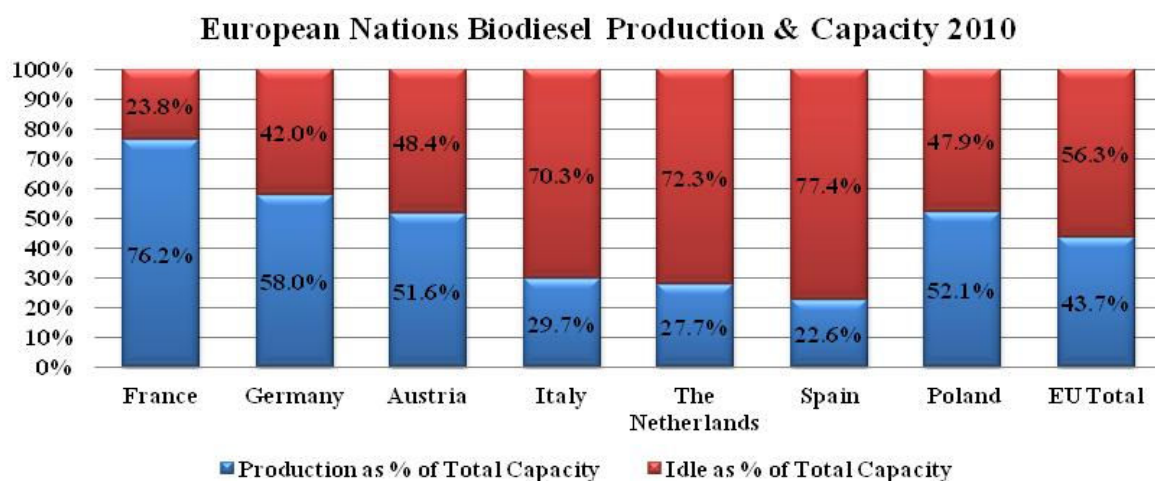
58.7% of global consumption. OECD projects that the EU will remain the main consumer of biodiesel, and account for over 50% of global consumption until 2020. Consumption in the United States, and Canada in 2010, was 2.46 billion liters, and 0.262 billion liters, or 12.1% and 1.3% of global consumption, respectively. The figure below shows global biodiesel production and demand over the past five years.



Source: Organization for Economic Co-operation and Development (OECD), & Fundamental Research Corp.

Despite the increase in demand for biodiesel, there is still a tremendous amount of excess production capacity around the world, especially in the European Union - the world's largest biodiesel consumer and producer with approximately 280 production facilities (mainly first generation plants). In 2010, only 43.7% of the total available production capacity in the European Union was utilized. The remaining capacity can produce an additional 27.4 billion liters per year. The main cause of the excess capacity was high feedstock prices for first generation biofuels.

The chart below shows production and excess capacity for select countries in the European Union.

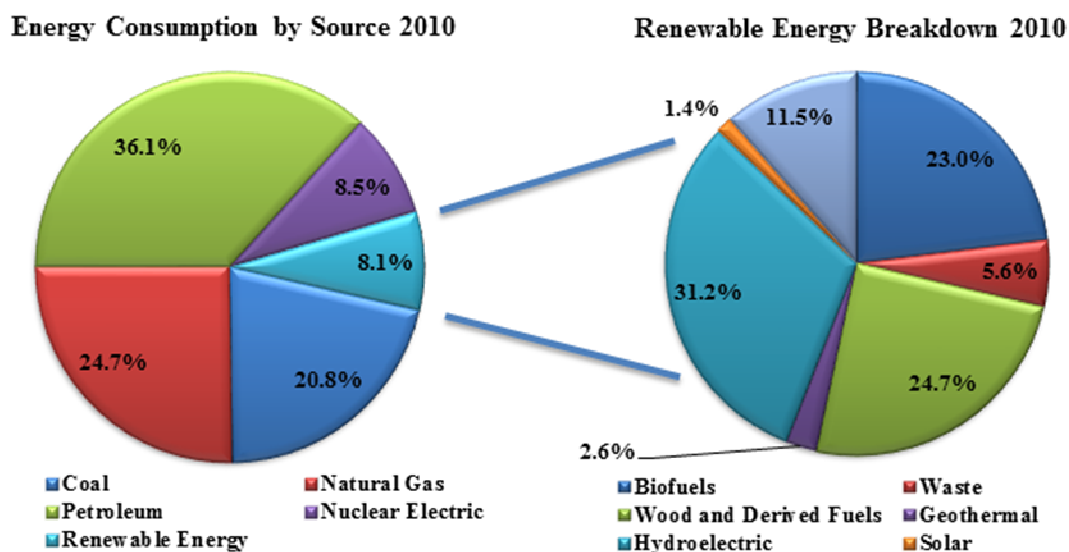


Source: European Biodiesel Board

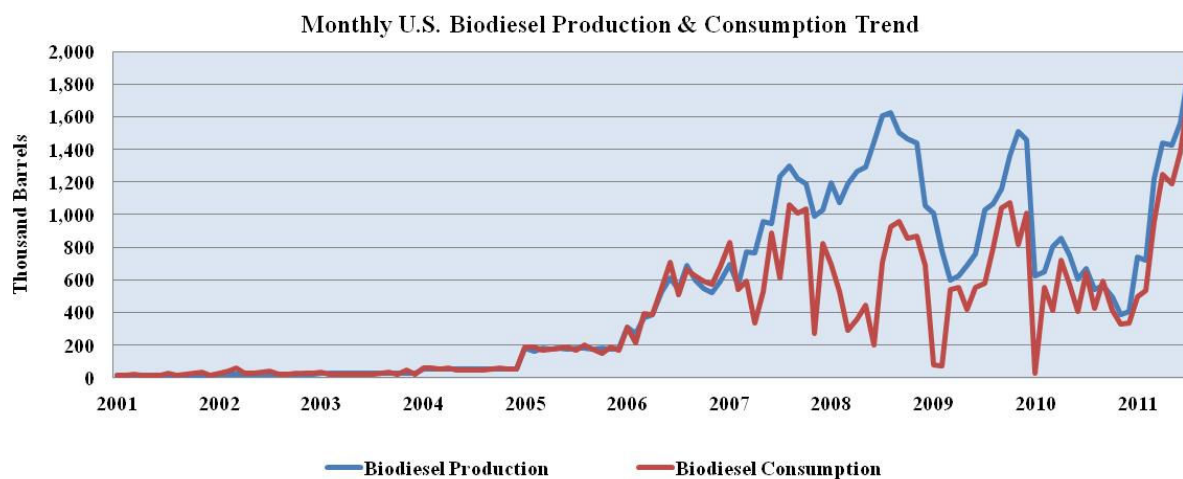
In 2009, due to the amount of excess capacity in the EU, and the subsidies in the U.S., the EU imposed restrictions on biodiesel imports from the U.S. to protect domestic producers.

United States Biodiesel Market

In the United States, biodiesel consumption increased from ~243,000 barrels in 2001, to ~6.0 million barrels in 2010 (CAGR 37.8%). Despite the significant increase in consumption, biodiesel only accounts for 23% of the renewable energy used, and 1.8% of total energy consumption in 2010. The graph below shows biodiesel consumption in the U.S. compared various other energy sources.



The supply of biodiesel in the U.S. exhibits the same trend from 2001, to 2010, with a 44.5% CAGR. The U.S. is the largest biodiesel producer other than the European Union. The graph below shows the monthly supply and consumption of biodiesel in the United States.

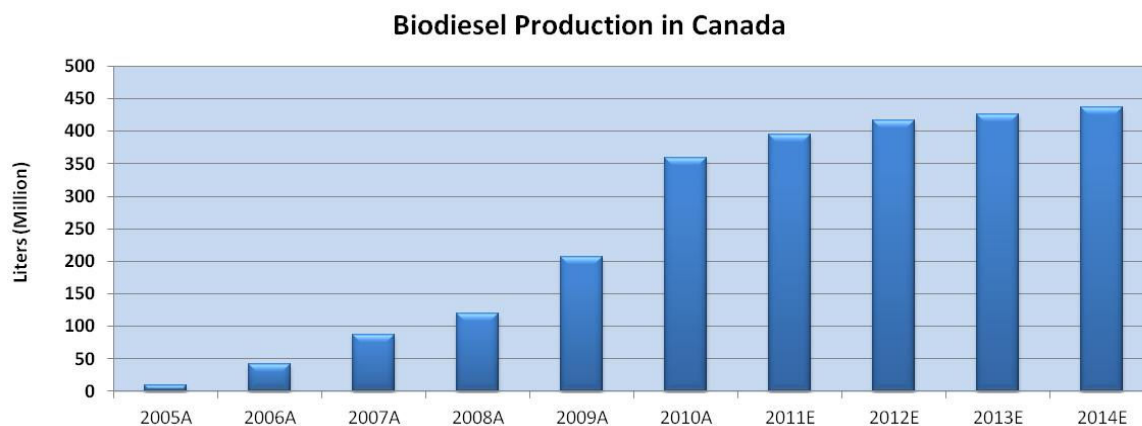


According to a recent study (September 2010) conducted by Hart Energy's Global Biofuels

Center, only 10% of the production capacity in the U.S. is currently being utilized. **The report also noted that the cause of the low utilization rate is mainly attributed to high feedstock prices.** As noted earlier, Blue Horizon is focusing on relatively lower cost second generation biodiesel production.

Canadian Biodiesel Market

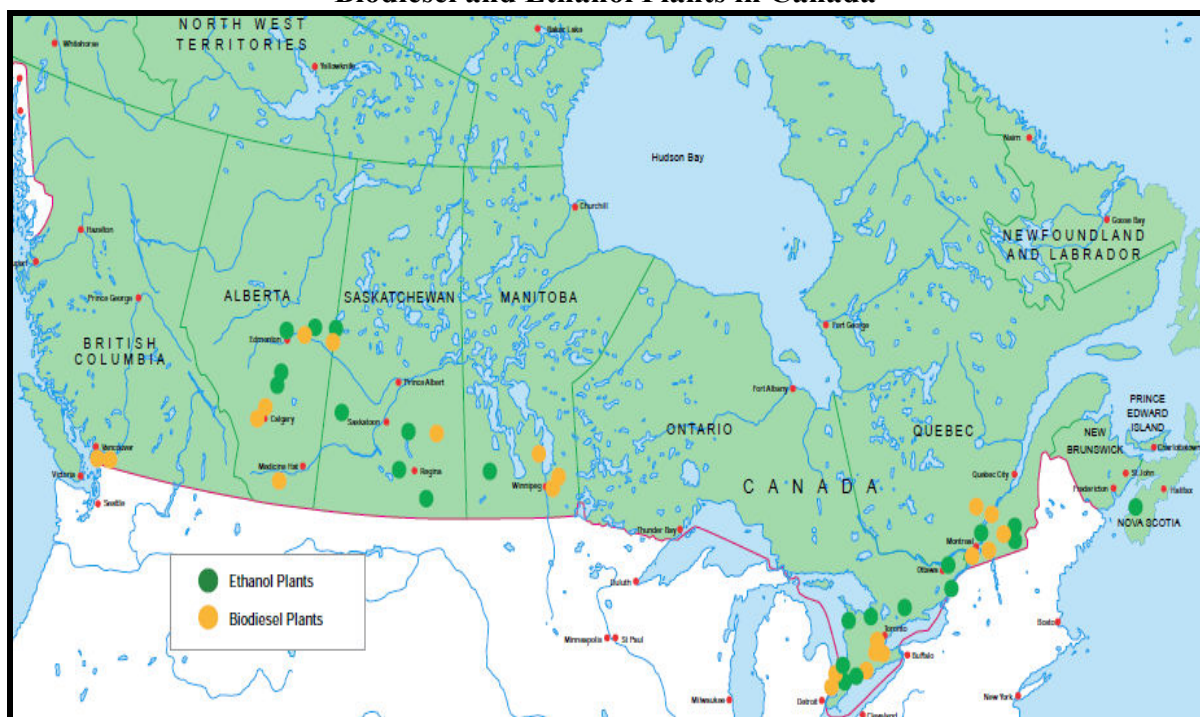
In Canada, the first commercial bio-diesel plant came in production in 2005. Since then, according to OECD, the production of bio-diesel has increased significantly from the initial 35 million liters per year, to 359.6 million liters per year in 2010. The figure below shows the production trend for biodiesel from 2006, to 2010, and estimates for 2011 to 2014. OECD projects production in Canada to continue to increase going forward.



Source: Organization for Economic Co-operation and Development (OECD), & Fundamental Research Corp.

As of November 2010, there were 13 biodiesel plants in operation, 2 under construction and 6 proposed plants across Canada - not including Blue Horizon's Bruderheim Plant. The majority of the plants are in Alberta, Ontario, and Quebec, with 5, 7, and 5, operational or planned facilities, respectively.

Biodiesel and Ethanol Plants in Canada



Source: Canadian Renewable Fuels Association (CRFA)- as of November 2010

Regulations & Incentive Programs in Canada

Like many countries across the globe, Canada has implemented several regulations and incentive plans with an aim to reducing CO₂ emissions and protecting the environment. This will have a significant impact on the demand for biofuels in Canada. The list below outlines the current regulations and incentives:

Regulations

- The Federal Renewable Fuel Regulations, finalized on September 1, 2010, **requires an average of 5% renewable content in gasoline** in Canada. The regulation came in effect on December 15, 2010.
- The Federal Renewable Fuel Regulations further **require a minimum of 2% renewable fuel content in diesel fuel and heating distillate oil (including diesel)** starting December 31, 2012.

Incentive Plans

- “**Bioenergy Producer Credit Program**” – provided by the Government of Alberta - the program provides financial assistance to firms to encourage the development of bioenergy products. The program runs until 2016.
- The Ministry of Agriculture and Agri-Foods Canada initiated the “**ecoAgriculture Biofuels Capital Initiative (ecoABC)**” with \$200 million in funding on April 23, 2007. The program allows up to \$25 million per project in relation to constructing or expanding biofuel related production facilities. The program began in April 23, 2007,

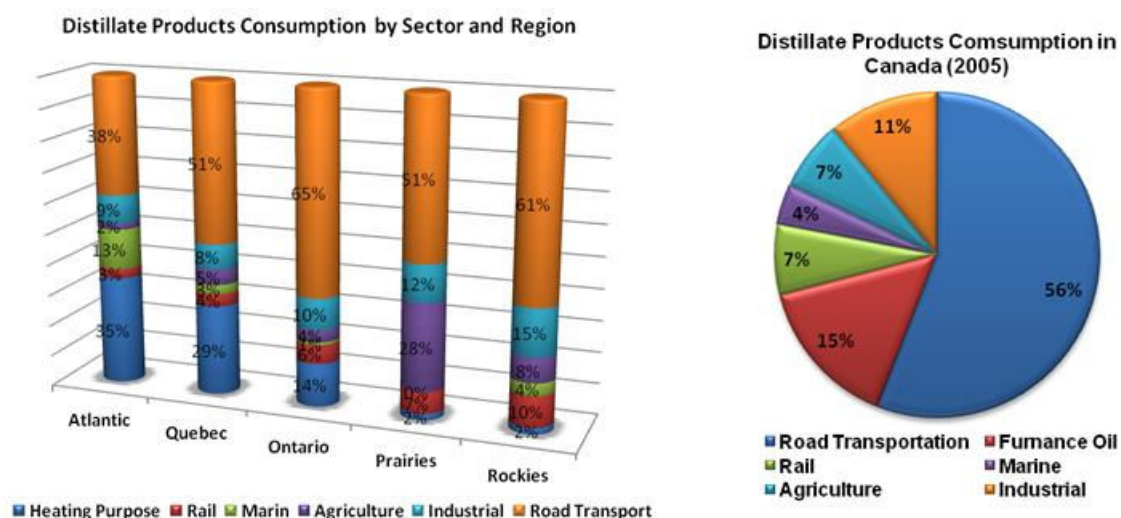
and ends on September 30, 2012.

- Natural Resource Canada set up the “*ecoEnergy for Biofuels*” program with \$1.5 billion budgeted for investing in renewable fuels related facilities. The program began in April 2008, and ends on March 2017.
- Funded by the Government of Canada, the “*NextGen Biofuel Fund*” provides support for the development of technology and markets for the production of advanced renewable fuels. Projects are eligible for funding up to a maximum of 40% or \$200 million of the project cost.
- “*SD Tech Fund*” is a \$550 million fund that provides financing to firms in later stages prior to the pre-commercial phase. The program is funded by the Government of Canada.

Biodiesel as a Substitute

Biodiesel is a substitute for distillate fuel products (fossil fuels) for both on-road transportation vehicles and off road appliances. Despite the increase in popularity of biodiesel products, total consumption only represents a fraction of total distillate fuel product consumption - as it is still in relatively early stages. According to Natural Resource Canada, 30.7 billion liters of distillate products were consumed in 2005. **Biodiesel production in Canada in 2010 (as mentioned above) accounted for just 1.2% of total distillate usage.**

The main use for distillate products (shown in the charts below) are road transport which accounts for 56% (17 billion liters) of total consumption. This market demonstrates the significant potential for biodiesel, especially when governments worldwide are raising renewable content requirements. **If demand shifts from regular diesel (used in transportation) to biodiesel by 1%, it would create 170 million liters in biodiesel demand.**

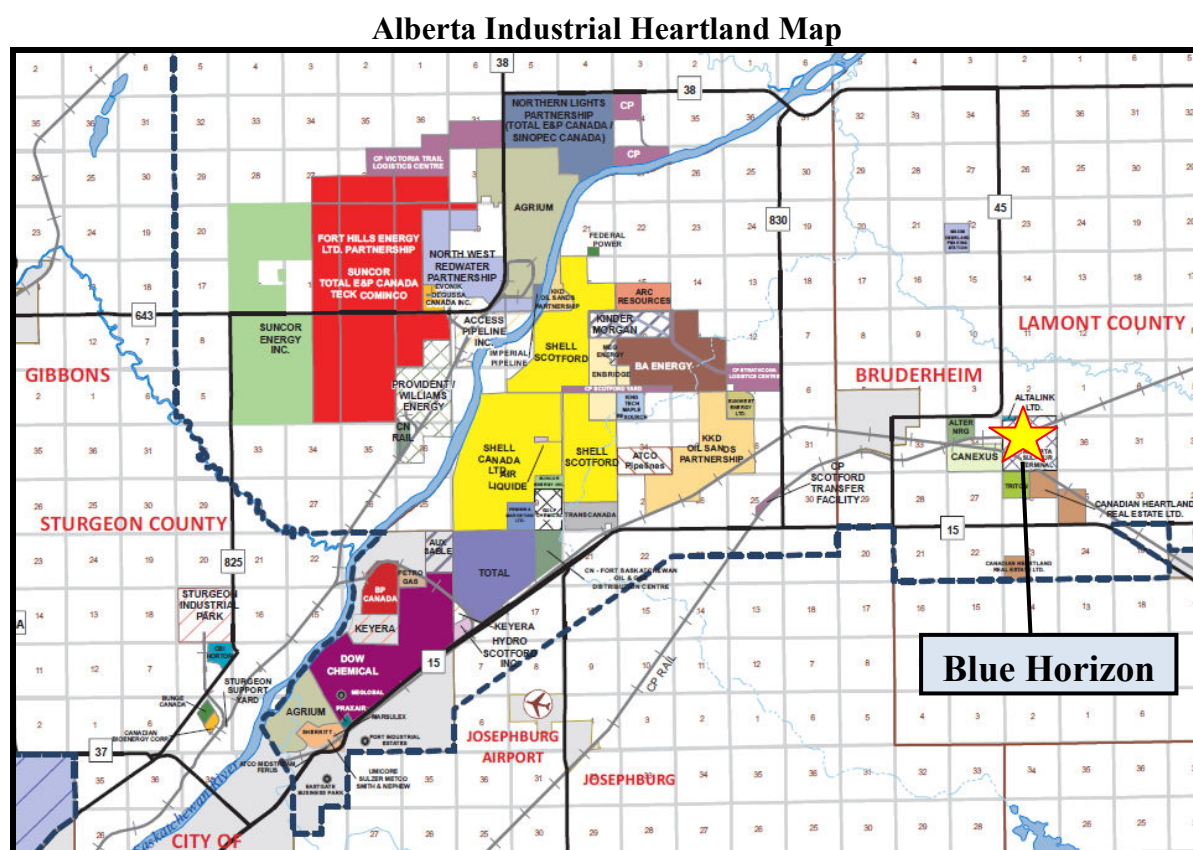


Source: Natural Resource Canada

The Brown Field Site

The brown field site is a three acre property with a 44,000 square foot industrial facility located 60 kilometers northeast of the City of Edmonton at Bruderheim, Alberta. Bruderheim is located at the center of Alberta's Industrial Heartland where more than 40 industrial facilities operate including Shell Canada, Suncor Energy and BP Canada. The site was previously used for manufacturing chemicals for the pulp and paper industry. The previous lessee has left a few tanks (can be seen in the picture later) that can be used as a storage facility by Blue Horizon.

The map below shows the establishment of various entities around the Bruderheim region.



Source: Alberta's Industrial Heartland Association

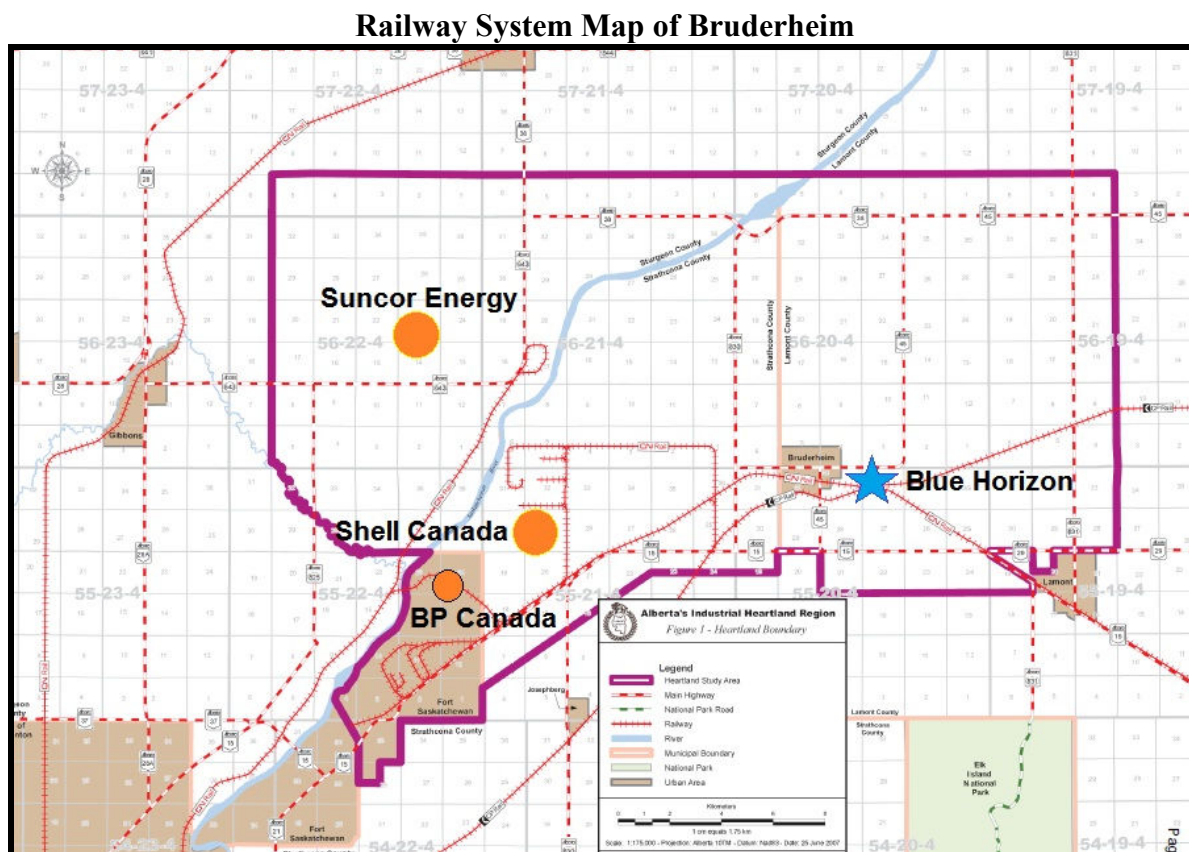
The lease agreement was an arm's length transaction with Heartland Industrial Park Inc. The term of the lease for the brown field site is 10 years with six 10 year extension options. The property lease rate is \$720,000 per year from years 1 to 5, and \$760,000 from years 6 to 10. Payments for the first five years will be a combination of \$600,000 in cash and \$120,000 in common shares (\$5.51 per sqft from year 1 to 5, and \$5.82 per sqft from year 6 to 10). We compared the lease with similar properties in the Alberta Industrial Heartland area and found that lease rates range from \$5.00 to \$8.00 per sqft.

The pictures below show the brown field site and its facilities.

Brown Field Site and Industrial Facility

Source: Company Presentation

The brown field site has direct access to the rail system of Canadian Pacific Railway and Canadian National Railway, which allows for low cost transportation of feed stocks and final products to potential clients around the region such as Shell Canada, BP Canada, Texaco, Esso, Husky and Suncor Energy. The graph below demonstrates the transportation system around the brown field site, Bruderheim.



Source: Alberta's Industrial Heartland Association & Stewart, Weir & Co. Ltd.

Technology

As mentioned earlier, Blue Horizon Bio-Diesel acquired an exclusive sub-license for **CFC (Catalytic Fractionated Conversion) Technology** from ADP Holdings of California and EcoTec Fuels LLC of Germany. **The license agreement allows Blue Horizon exclusive rights to the technology within the territory of Canada.** Blue Horizon has agreed to pay an upfront license fee (to be paid in installments) along with royalties per liter of biofuel produced.

The technology combines hydrocarbons (used motor oil) and low grade cellulose (newspaper) to produce biodiesel fuel in a pollution free process. The following outlines the benefits of the CFC technology.

- Allows the production of second generation biofuels which reduce the dependence on agriculture products as inputs and provide an alternative solution to treat waste products.
- Zero pollution & closed loop design – no metal steam, coking, dioxins and furans.
- Low reaction temperature (250-360 degree Celsius) compared to traditional method with temperatures reaching > 1,000 degree Celsius.
- Able to use various types of feedstock as inputs, including multiple waste streams.

- High input to output ratio with maximum at about 90%.
- Short processing time (from input to output) – 3 minutes.
- No freezing or product sterilization from storage issues as in first generation biodiesels

Our research indicated that no other technology, other than KDV technology (which is the predecessor of CFC), can offer similar advantages.

Typical processing time from input to output is approximately 3 minutes (according the EcoTec Fuels) and **a small CFC module (30'H x 30'W x 30'D) is capable of producing up to 185 gallons (~700 liters) of fuel per hour, or about 1.0 million gallons (~3.7 million liters) per annum.** According to management, CFC technology offers high efficiency with an input to output ratio at a maximum of 90%. The technology discharges about 5% as a tar-like by-product that can be used in road paving.

Our research indicated that CFC Technology was also known as “Catalytic Pressure less Depolymerisation (CPD) or KDV Technology” (KDV and CFC have over 90% similarity). KDV technology was originally invented by Dr. Christian Koch, founder of Alphakat GmbH. Alphakat’s technology has been implemented in various countries around the world including Canada since 2003. Dr. Christian Koch later passed on the technology to his son Mr. Ludwig Christian Koch, CEO of EcoTec Fuels LLC. Mr. Ludwig Christian Koch further improved KDV technology - improvements include a higher efficiency rate of up to 90% compared to the original 80%.

The following outlines several plants that implemented KDV technology:

Germany – A plant came into production in January 2009, and domestic waste (garbage) was used as the feedstock.

Spain – A first plant started operation in January 2007, which uses mineral and biological residues as the feedstock. A second plant came into operation in 2009.

Mexico – A plant opened in October 2004, and uses waste oil as feedstock to produce biodiesel.

Canada – The first plant in Canada was in Barrie, Ontario which came into production in April 2007. The plant uses electronic waste as feedstock to produce biodiesel. The plant is currently producing at full capacity.

Source: Forans AG & Alphakat GmbH

Since inception, Alphakat has licensed to seven companies around the world and EcoTec Fuels has licensed to Blue Horizon.

We believe the production history of KDV technology around the world a good indication of the potential success of CFC technology. The exclusive Canadian license obtained by Blue Horizon enhances its competitive position in the Canadian market. Even though we believe

Alphakat no longer licenses its technology, there is no guarantee Alphakat will not in the future. This may cause Blue Horizon to lose its exclusive license advantage in the future.

The plant is composed of five modules including a Sludge Plant, Main Core Module, Ash Plant, Genset Unit and Desulphurization Module. A brief description of each module follows:

Sludge Plant – This unit is designed to process feedstock from solid state into a semi-solid material, called “sludge”, for further processing at the next module.

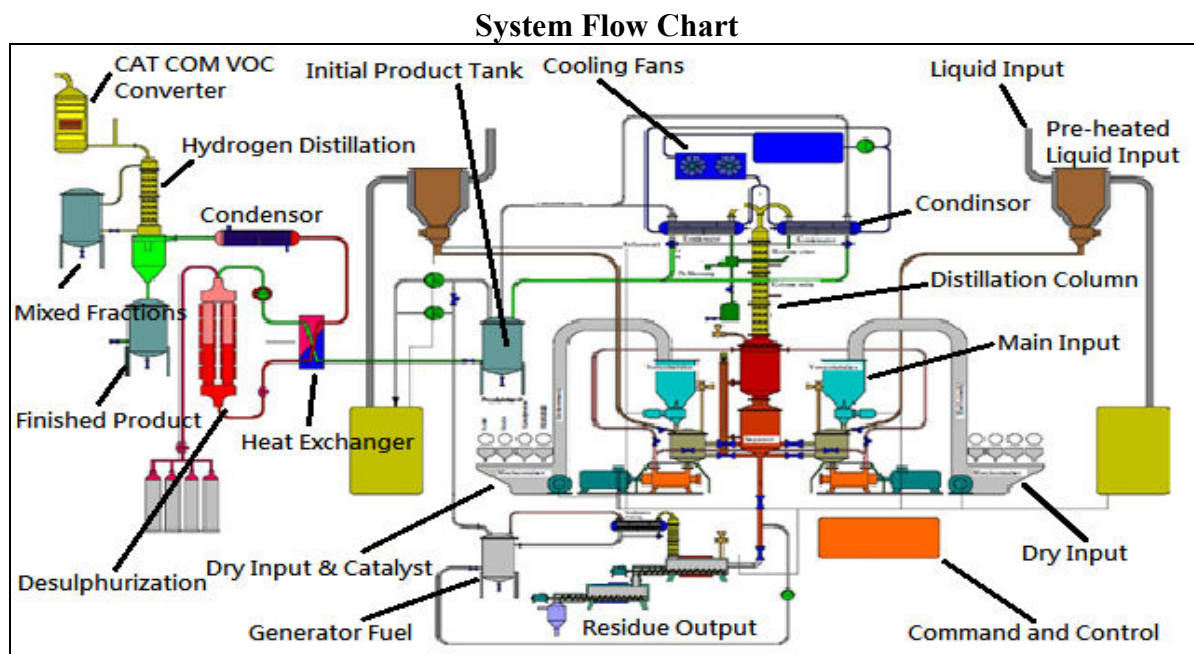
Main Core Module – the “Sludge” is heated and diesel vapor is collected at the distillation column and moved to the main condenser to produce liquid biodiesel.

Ash Plant – the remaining feedstock is further separated into hydrocarbons and other remains. Other remains are removed in the form of ashes.

Genset Unit – This is the powering unit that generates the necessary power to drive the entire process.

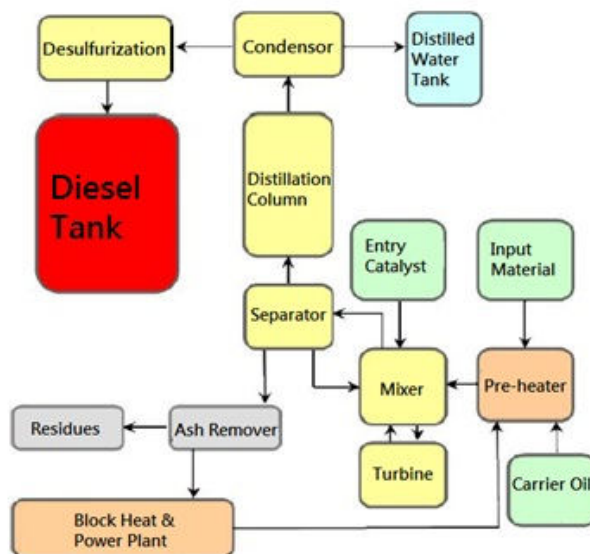
Desulphurization Module – Depending on the feedstock used, this unit is designed to remove sulphur content from the diesel to meet different countries’ requirements

The graphs below demonstrate the conversion process from feedstock into biofuels.



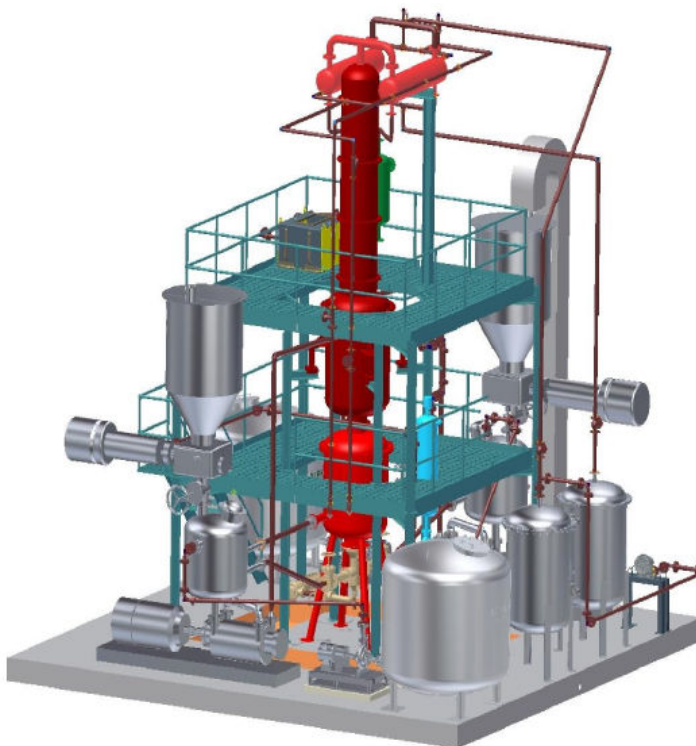
Source: Company Presentation and Fundamental Research Corp. & Alphakat GmbH & Forans AG

Simplified Functional Description Flow Chart



Source: Fundamental Research Corp. & Alphakat GmbH & Forans AG

Structure of a CFC Model



Source: Fundamental Research Corp. & Alphakat GmbH & Forans AG

Assembly of a CFC/CPD/KDV Plant in Ontario, Canada



Source: KDV-Projektmanagement

Conclusion

We have highlighted the following growth potential and risks associated with Blue Horizon Bio-Diesel.

- 1. Higher environmental regulation and progress towards renewable energy.**
The recent federal regulation requiring 2% renewable content in heating fuels and regular diesel can create approximately 600 million liters in demand for biodiesels based on 2010 diesel consumption. Current production is 360 million liters, a short fall of 240 million liters. We see the trend continuing going forward.
- 2. Significantly lower input (feedstocks) costs compared to first generation biofuels.** We believe second generation biofuels have significant cost advantages over first generation biofuels.
- 3. Strategically located brown field site with close proximity to feed stock and to potential customers.** The brown field site has direct access to railway systems which allows Blue Horizon to sell and transport end products (biodiesel) directly to refineries in the region and source inputs (feedstocks) at a low cost.
- 4. Pipeline production plants in Canada**
There are 2 new biodiesel plants under construction plus 6 proposed plants (1st

generation). If all the plants come to production, total production will be 1.2 billion liters per year. Even though the success of these plants is yet to be determined, there is potential for supply to increase.

5. Potential competition from first generation biofuels

As mentioned earlier, research has suggested that if crude oil prices are above \$70 - \$80 per barrel, first generation biodiesel will be able to make a profit depending upon input prices. This could result in a significant increase in supply from currently idled capacity.

6. Uncertainty in financing and cash flows

Blue Horizon currently does not have enough cash flow and cash to fund the construction of the six biodiesel modules (aggregate cost of ~\$27 million). The construction and production timeline is subject to the availability of additional financing.

7. Uncertainty in Construction Timeline

The proposed construction timeline is subject to Blue Horizon's ability to execute construction properly without any delays.

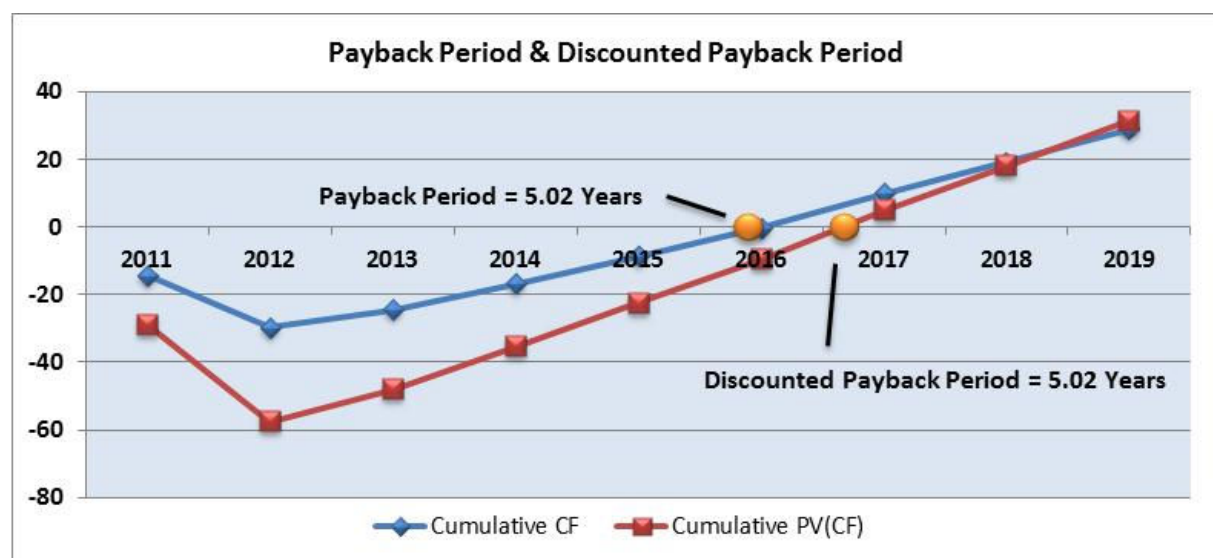
Based on the projected plant completion date along with information gathered from Blue Horizon, and EcoTec Fuels LLC, we estimate annual revenues to be approximately \$0.62 million for 2012, and \$23.49 million for 2013 (calendar year). The following outlines our estimates and assumptions in deriving our net present value (NPV) of the project. Note that we are conservative in some of the assumptions relative to management's estimates.

- Assumed 700 liters per hour production capacity per module for 2012, and 800 liters per hour for 2013. Our long-term estimate is 900 liters per hour. These are conservative estimates compared to the management team's 1,000+liters per hour estimate.
- Modules operate 20 hrs/day for the 1st year, 21 hrs/day for the 2nd year and 22hrs/day for the 3rd year and after.
- Modules operate 116 days for 2012, 345-350 days for 2013+.
- 90% of production meet commercial quality and standards.
- Incorporated relevant licensing fees and royalties.
- Assumed long-term feedstock costs (COGS) to be \$0.52 per liter (management estimate is \$0.42 per liter)
- Biodiesel price forecasts were based on OECD and Sproule's projections and our internal estimates.
- Period analyzed: 2012 to 2040 (depreciable life)
- Only accounted for the six confirmed biodeisel modules.
- Excluded the possibility of receiving government grants. Management is in the process of applying for eligible grants and has indicated a high probability of receiving the grants.
- Used a 13% weighted average cost of capital (based on our estimates of the industry average cost of equity, beta and cost of debt)

Based on our analysis, the NPV for the project is \$27.56 million - the payback period is 5.02 years. The table below shows the sensitivity of the NPV of the biodiesel project relative to various discount rates (WACC) and the long-term COGS (feedstocks cost per liter).

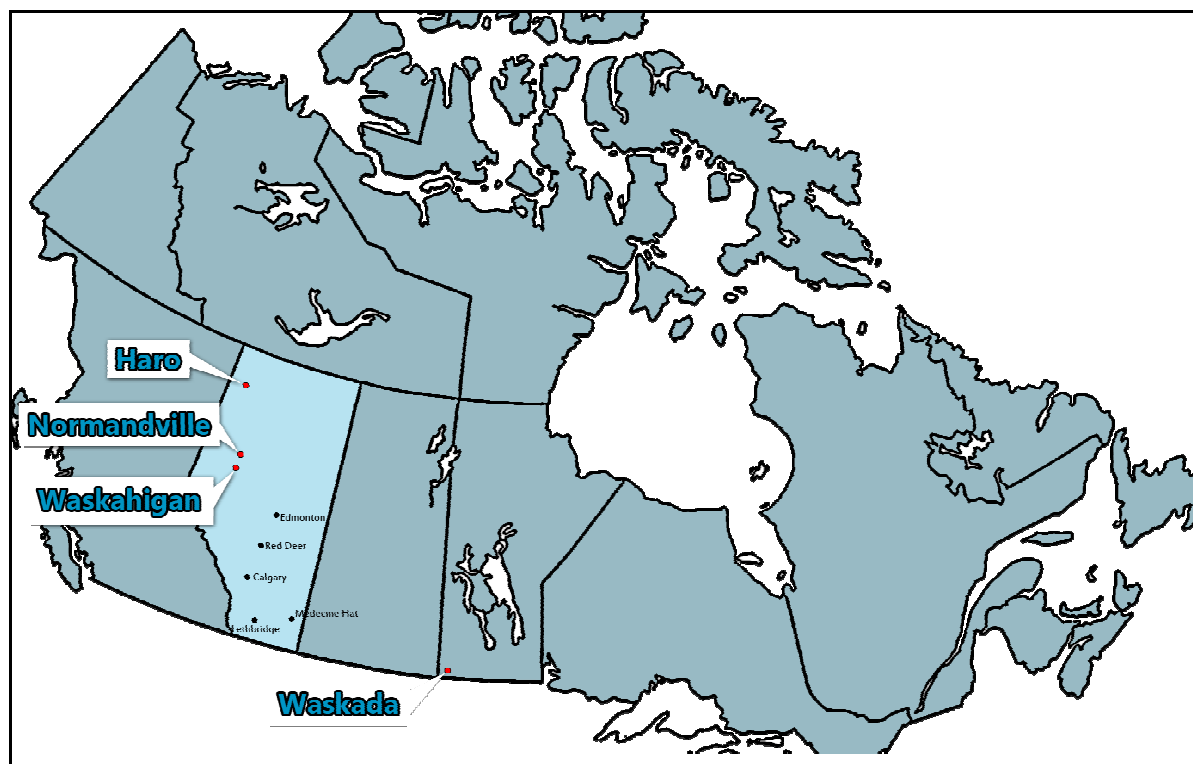
		NPV (\$, mm) Sensitivity													
		WACC													
		7.0%	8.0%	9.0%	10.0%	11.0%	12.0%	13.0%	14.0%	15.0%	16.0%	17.0%	18.0%	19.0%	20.0%
LT COGS per Liter (feedstocks)	\$0.36	106.75	92.13	79.68	69.03	59.86	51.93	45.03	39.01	33.73	29.07	24.95	21.28	18.02	15.10
	\$0.38	102.03	88.02	76.09	65.87	57.08	49.47	42.85	37.06	31.99	27.51	23.54	20.02	16.87	14.06
	\$0.40	97.31	83.91	72.50	62.72	54.30	47.01	40.66	35.12	30.24	25.95	22.14	18.75	15.73	13.02
	\$0.42	92.58	79.80	68.90	59.57	51.52	44.55	38.48	33.17	28.50	24.39	20.74	17.49	14.58	11.98
	\$0.44	87.86	75.69	65.31	56.41	48.74	42.09	36.30	31.22	26.76	22.83	19.33	16.22	13.44	10.95
	\$0.46	83.13	71.58	61.72	53.26	45.96	39.63	34.11	29.28	25.02	21.27	17.93	14.96	12.30	9.91
	\$0.48	78.41	67.46	58.12	50.10	43.18	37.17	31.93	27.33	23.28	19.70	16.53	13.69	11.15	8.87
	\$0.50	73.68	63.35	54.53	46.95	40.40	34.71	29.74	25.38	21.54	18.14	15.12	12.42	10.01	7.83
	\$0.52	68.96	59.24	50.94	43.79	37.62	32.25	27.56	23.44	19.80	16.58	13.72	11.16	8.86	6.80
	\$0.54	64.23	55.13	47.34	40.64	34.84	29.79	25.37	21.49	18.06	15.02	12.31	9.89	7.72	5.76
	\$0.56	59.51	51.02	43.75	37.49	32.06	27.33	23.19	19.55	16.32	13.46	10.91	8.63	6.57	4.72
	\$0.58	54.78	46.91	40.16	34.33	29.28	24.87	21.00	17.60	14.58	11.90	9.51	7.36	5.43	3.68
	\$0.60	50.06	42.80	36.56	31.18	26.50	22.41	18.82	15.65	12.84	10.34	8.10	6.09	4.28	2.65
	\$0.62	45.33	38.69	32.97	28.02	23.72	19.95	16.64	13.71	11.10	8.78	6.70	4.83	3.14	1.61
	\$0.64	40.61	34.58	29.38	24.87	20.94	17.49	14.45	11.76	9.36	7.22	5.30	3.56	1.99	0.57
	\$0.66	35.88	30.46	25.78	21.71	18.16	15.03	12.27	9.81	7.62	5.66	3.89	2.30	0.85	(0.47)
	\$0.68	31.16	26.35	22.19	18.56	15.38	12.57	10.08	7.87	5.88	4.10	2.49	1.03	(0.29)	(1.50)
	\$0.70	26.43	22.24	18.60	15.41	12.60	10.11	7.90	5.92	4.14	2.54	1.09	(0.23)	(1.44)	(2.54)
	\$0.72	21.71	18.13	15.00	12.25	9.82	7.65	5.71	3.97	2.40	0.98	(0.32)	(1.50)	(2.58)	(3.58)
	\$0.74	16.98	14.02	11.41	9.10	7.04	5.19	3.53	2.03	0.66	(0.58)	(1.72)	(2.77)	(3.73)	(4.62)

Source: Fundamental Research Corp.



Blue Horizon Energy – Oil & Gas Operations

Blue Horizon Energy has 4 oil and gas properties which are currently in the exploration/development stage. The map below shows the location of each property.



Source: Company.

Below we discuss the assets in more detail.

Normandville Property

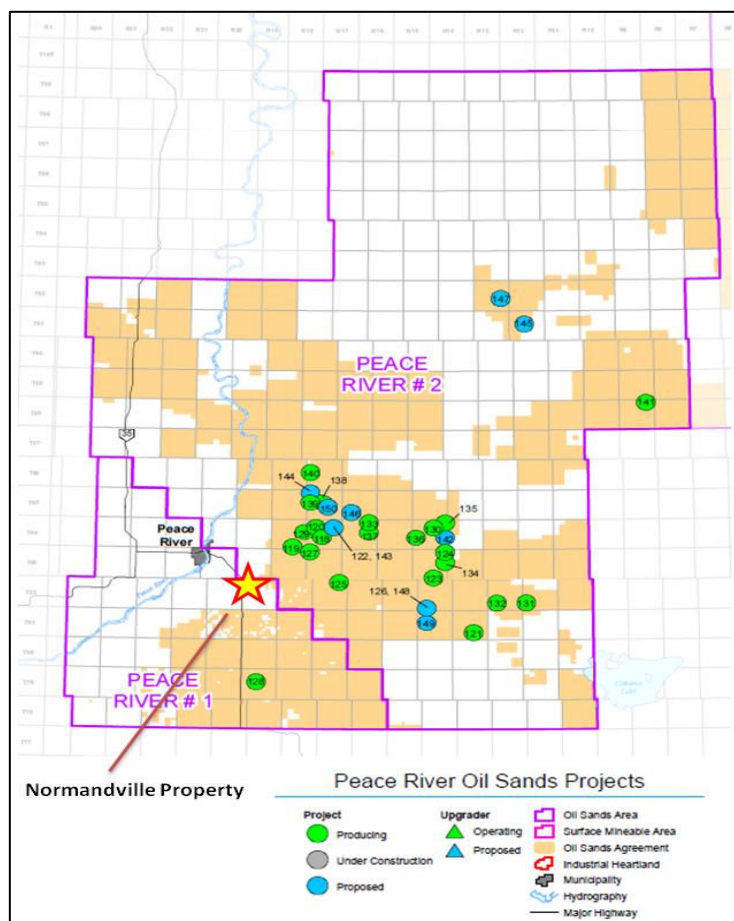
In September 2007, Blue Horizon purchased 100% ownership in the Normandville property. The asset was acquired from Peace River Oil (P.R.O.) Inc. for \$3.02 million (shares + cash). Mr. Don Allan was the President and CEO of P.R.O. Inc, and one of the five owners of the company with a 15% ownership.

The asset spans 14 sections, comprising approximately 9,000 contiguous acres of oil sands in Northern Alberta. Blue Horizon is the operator of the Normandville property.

The property has pre-existing infrastructure with year around access for trucks, except for spring-time annual weight restrictions on public roads. If the property produces bitumen, Blue Horizon will sell the dilbit (diluted bitumen) to local bitumen refineries or truck it to either the Valleyview area (crude oil terminal and major pipeline), which is 100km away, or to Hardisty Alberta, 700 km away, which is a major pipeline hub for dilbit. Another option Blue Horizon may employ is to have Blue Horizon Bio-diesel Inc. (wholly owned subsidiary of Blue Horizon) refine the dilbit into high grade renewable bio-diesel.

The Normandville asset is located 8 miles from wells producing bitumen using cold production and horizontal well technology. The average producing multi-leg horizontal

well in the area uses cold production and produces approximately 50-100 boe per day. Blue Horizon is hoping to produce bitumen from this asset using similar, relatively low cost techniques. The average cost to drill a multi-leg horizontal well in the area is about \$1.1 – \$1.3 million. The company may be able to realize additional cost savings in transportation, drilling, production services and equipment due to the proximity of the already producing wells. The graph below shows the location of the Normandville asset.



Source: Government of Alberta (Information as of July 12, 2011)

Previous to Blue Horizon Energy acquiring the Normandville asset, **the area had undergone extensive exploration at deep depths.** The exploration indicated bitumen (7° to 10° API) in the shallower Bluesky Gething formation (the geological formation that Blue Horizon has leased). Prior exploration provides a database of approximately 60% of the Normandville asset and 2D/3D seismic covers over 50% of the Normandville asset.

Blue Horizon had previously entered into participation and acquisition agreements with a couple of companies. However, the agreements fell through on December 21, 2010. **Blue Horizon then entered into an agreement with Whispering Mountain. Whispering Mountain earned a 50% working interest in the Normandville asset.** Whispering Mountain paid a \$40,000 fee on the signing of the agreement and was required to drill 3 test wells. All costs, risks and expenses associated with the drilling of the wells, and any further

work to bring the wells into production, was borne 90% by Whispering Mountain and 10% by Blue Horizon.

As of October 2011, Whispering Mountain had drilled all 3 vertical wells (cost - \$2.3 mm gross) and earned their 50% working interest. The core and log data from the 3 drilled wells have been analyzed by Trimble Engineering (a third party engineering firm) who **has concluded there is a high probability of cold flow production (based on API and viscosity) at the property.**

One well has been cased and completed, while the other two were plugged and abandoned. The company is evaluating the option to use horizontal wells and Enhanced Oil Recovery (EOR) methods such as chemical enhancement, steam-assisted gravity drainage or cyclic steam stimulation.

The company and its partner are now reviewing seismic surveys to determine a multi-leg horizontal drilling program.

This project intends to use "in situ" recovery (instead of mining) - which has a lower initial CAPEX, and environmental advantages (less disruption of surface land, less fresh water use and does not require tailings ponds) over oil sands mining projects.

Waskahigan Property

On June 8, 2011, Blue Horizon acquired a 15% working interest (from Copper Creek) in a conventional oil and gas play in Waskahigan Alberta. A 2,200m test well with a 500m horizontal section targeting the Dunvegan B Formation has been drilled and cased. BHE has provided \$368,330 to drill, case, complete, equip and place the test well on production, based on a total estimated cost of \$2.46 million. **The well was fraced and completed in November 2011. The well is waiting to be production tested.**

Haro Property

Blue Horizon has acquired 100% ownership in 3,840 acres (6 sections) targeting light oil in the Pekisko Formation at Haro, Alberta. The total purchase price (including the Waskada property below) was \$700,000 from an arm's length third party. Blue Horizon paid for the properties by issuing 2.8 million common shares at \$0.25 per share plus 1 million warrants with an exercise price of \$0.40 and an expiry date of April 12, 2013. The agreement also includes a 3% royalty in perpetuity on production from the property and a 2% royalty on lands acquired within two miles of the two properties.

The Haro property is surrounded by Pace Energy to the east and west and Husky Energy (TSX: HSE) to the north. Blue Horizon plans to farm out the lands and start a horizontal drill program in the Pekisko formation. The horizontal program will consist of 2000m MD (measured depth) horizontal to a true vertical depth of between 750 and 825m. The expected costs to drill, case, frac and complete a well is about \$1.1 to \$1.4 million. **The initial production values, based on offsetting wells, are expected to average 125 – 180**

boe per day. Down spacing in the area allows for 4 wells per section.

Waskada Property

Blue Horizon has acquired 100% ownership in 320 acres targeting the Spearfish Formation at Waskada, Manitoba. The property is located to the north of assets owned by Penn West, Legacy and EOG. **The expected rates of production, based on the average in the Spearfish area, is initial production of about 150 boe per day and settling to about 50 boe per day.** Down spacing for horizontal wells in the area, with permission, has been as high as 8 per half section. **Blue Horizon is planning on having a 4 well horizontal program in the half section.**

The average cost to drill, frac, complete and tie in a horizontal well in the Spearfish area is about \$1.1 to \$1.3 million.

Blue Horizon Mining

Overview

Blue Horizon Energy Inc. owns 74% interest in Blue Horizon Mining Inc. (the remaining 26% is owned by Mr. Doug Allan). The company has two properties located in British Columbia.



Source: Company

Vermillion Forks Property

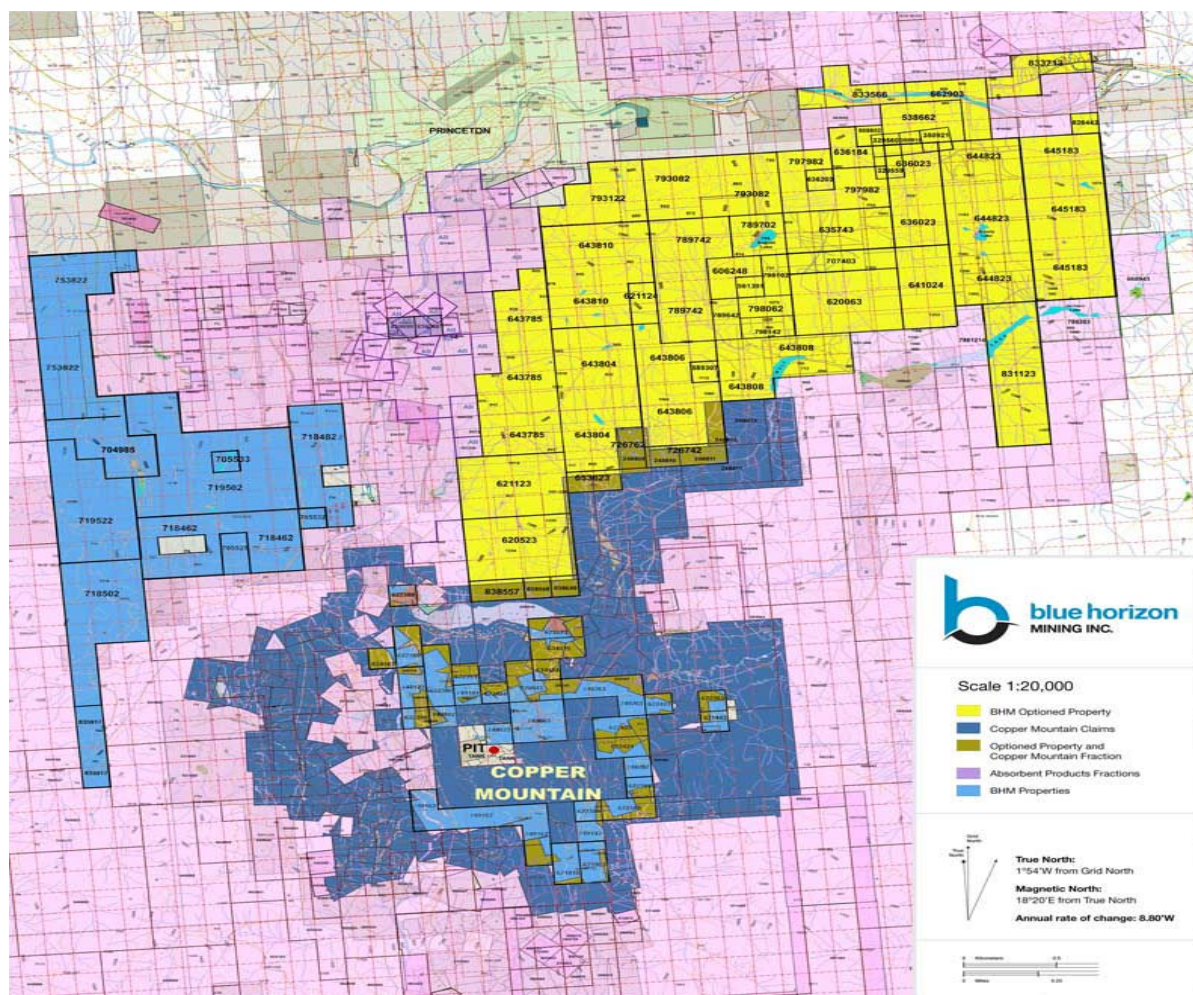
The Vermillion Forks claims is a copper project located south east of the town of Princeton, BC with an area of approximately 107km². The property comprises two main areas known as the East Block and the West Block.

The property is immediately adjacent to the northern boundary of the Copper Mountain Mine owned by Copper Mountain Mining Corp. (TSX: CUM) and Mitsubishi Materials Corp (OTCPK: MIMTF), who own 75% and 25% respectively. The mine was re-opened in Summer 2011, and plans to produce approximately 105 million pounds of copper per year for the first 12 years for operations.

On February 21, 2011, BH Mining entered into an agreement to acquire the interest in the claims through a property transfer agreement with Wild West Gold Corp (“Wild West”). The company can earn a 100% interest in the West Block with an option to then earn a further 90% interest in the East Block.

In order to acquire the interests in the property, BH Mining will pay Wild West a total of \$1,000,000 in cash installments until 2016, and \$1,800,000 in shares. The company is also required to incur total exploration expenditures on the East Block of \$2,500,000 by 2015. Upon payment of the first \$100,000 in April 2011, BH Mining became 100% owners of the West Block.

Wild West retains a net smelter royalty (NSR) of 1% on sales from the West Block and 3% on sales from the East Block.



Source: Company

After acquiring the property, BH Mining started a program of exploration comprising two phases. Phase 1 was completed in October 2011, and comprised of prospecting, geological mapping, a 21 line km Magnetometer (MAG) Survey, and 20 trenches totaling 705 meters. BH Mining has stated that mineralization is associated with copper skarn type deposits in the Nicola group.

Initial assay results from samples taken during Phase 1 show good copper, silver and gold mineralization.

ASSAY ANALYSIS			
Sample No.	Cu %	Au ppb	Ag ppm
35512	1.07		15.00
35514	1.72	606.00	40.50
35012	10.32		
35018	7.84		
35022	11.56		
SX-6	1.63	8633.00	88.60
SX-8.1	13.12	561.00	65.00
SX-8.2	1.14		
SX-11	2.16		
SX-12	3.75		
SX-13	2.95		
SX-14	2.47		
SX-15	1.14		
SX-19	9.28	1197.00	140.00
SX-20	1.16		

Source: Company

Immediately following the successful summer exploration, the company completed a Phase II drilling program. Phase II comprised the drilling of eight holes for a total length of 1,508m in five different locations on the East Block. **We anticipate that positive results from this initial drilling will allow the company to identify future drilling targets with a view to establishing a near term resource estimate.** The company plans to commence a follow-up drilling program in the new year.

The Kodi Project

On March 29, 2011, BH Mining signed an agreement to acquired a 100% interest in the Kodi Property 16km north west of Salmo, British Columbia.

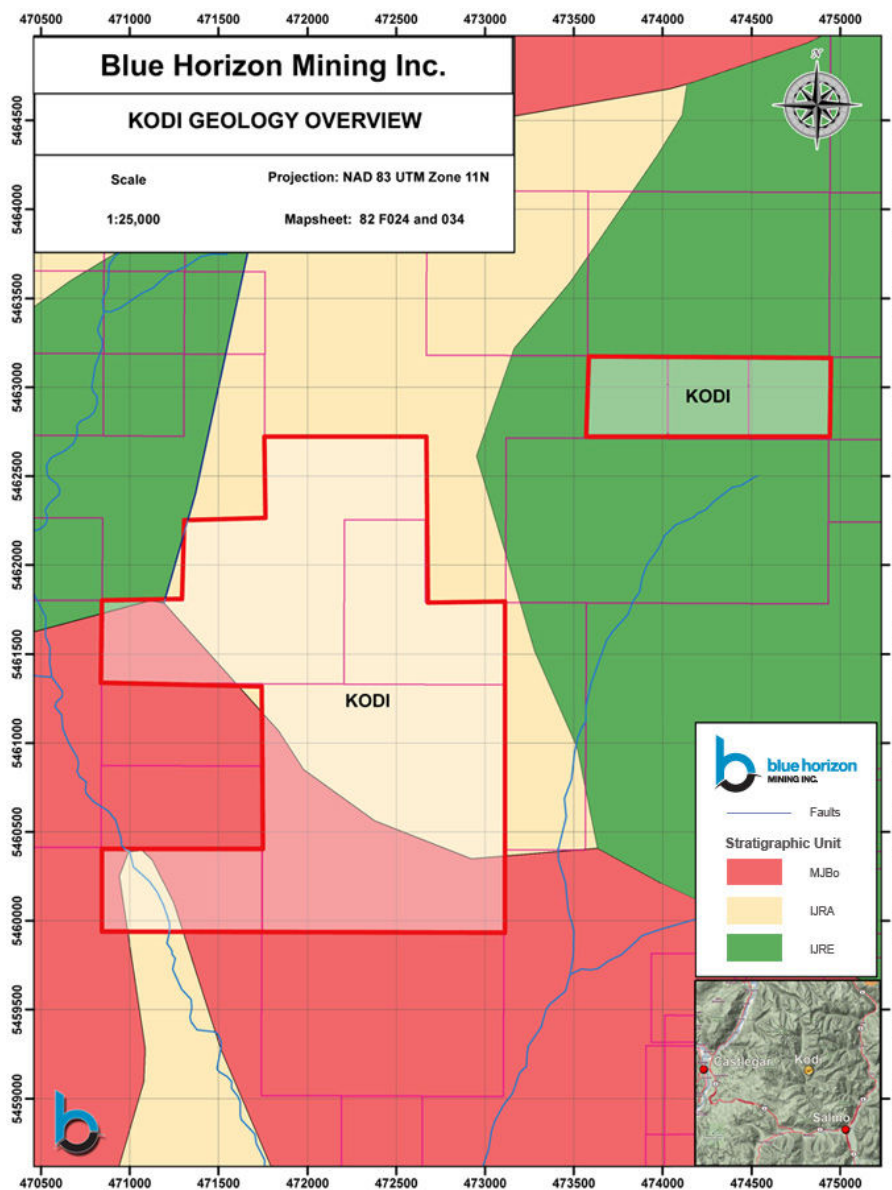
The property comprises 7 mineral tenures in the Nelson Mining Division over an area of approximately 5km².

As part of the transaction, BH Mining will pay the optionees a total cash payment of \$160,000 in scheduled payments by February 2013, incur \$500,000 in exploration expenditures by February 2014, and pay \$75,000 in common shares at a deemed value of \$0.20 per Blue Horizon Industries share. The property is also subject to a NSR of 2%.

The Kodi property is situated close to the Second Relief Mine which produced gold from 1902-1919, and from 1928-1941, from eight sub-parallel vein structures.

The property is located in a region with a prolific history of gold production, and mineralization in the area can be categorized into four primary types:

- Porphyry or stockwork molybdenum-copper
- Skarn molybdenum, tungsten, copper and gold
- Vein gold, silver, copper, gold, silver lead and zinc
- “conformable gold”



Source: Company

In October 2011, BH Mining completed an initial exploration program aimed to provide base line information to assist future drilling programs. Exploration included 112 line-km of helicopter borne geophysical survey and approximately 13.5 line-km of soil sampling across the property. Results from sampling and survey data have not been released to date.

BH Mining will use the data obtained through this initial exploration program to identify

future drill targets on the property and establish a future resource estimate.

Management has stated that they intend to have an assessment report on the Kodi project completed in early 2012.

Blue Horizon Contracting

Business Strategy

Blue Horizon Contracting (BHC) is a 100% owned sub-division of Blue Horizon Energy Inc. BHC was established in November 2009 to focus on dismantling opportunities at industrial plants. Dismantling of industrial plants involves the disassembling of equipment/machinery in plants. Dismantling services are typically required when a company needs to sell their assets or transport their assets to another location. Examples of industrial facilities that require dismantling services include, oil refineries, chemical processing plants, gas plants, bulk storage facilities, pulp & paper mills, steel manufacturing mills and utilities plants.

Blue Horizon entered the dismantling business because of Mr. Doug Allan, a major shareholder and brother of Mr. Don Allan. Mr. Doug Allan entered into an asset sale agreement with an Argentinean company while Blue Horizon was contracted to dismantle and export the asset to Argentina (details about the project are discussed below). After completing the contract with 40% net margins before tax, Blue Horizon started to bid on additional contracts.

The company successfully secured a second dismantling contract from Koyo Development Co. Ltd, and Gurangan Lotusan Natural Gas Chemicals Co. Ltd. (both are Chinese based companies), to dismantle a methanol and ammonia plant that was sold by Methanex (TSX: MX; NASDAQ: MEOH) to Koyo and Gurangan Lotusan. About 80% of this project was completed before being terminated by the client due to the client's logistic and cash flow issues in November 2011 (explained later in this report).

Since then, Blue Horizon has hired a dedicated sales person to secure additional contracts. Blue Horizon has indicated that the company is seeking projects with a minimum of \$20.0 million in potential revenues. It is currently in the bidding process for 4 other projects as follow:

Location	Potential Revenue (mm)	Project Length (years)
BC	\$ 10.00	0.5
BC	\$ 45.00	2.0
South America	\$ 400.00	8.0
BC	\$ 35.00	2.0

Source: Company

A typical project attracts an average of 4 to 6 bidders. Factors that affect the outcome of the bidding include track record, ability to perform the contract and price. In our opinion, the dismantling industry is highly competitive and the main determining success factor is price. As BH is targeting larger contracts (compared to their first project), they **estimate net margins (before tax) for future contracts will be around 12% - 15%, which is**

significantly lower than the 40% net margins (before tax) achieved in the first contract.

After securing contracts, BHC hires temporary laborers and subcontractors. In a typical project, more than 90% of the laborers are outsourced. The key management personnel at BHC are Bob Lloyd, David Allan and Darcy Grahm (bios are in the Management section).

The amount of skilled laborers needed for each project can vary widely (Kathleen Project: > 80 workers and Kitimat Project: >150 workers), and often depends upon the size (revenue) of the contract. We believe the most efficient method for the company to secure contractors is through labor unions, which was the case for the Kitimat Project. However, this can potentially increase BHC's operating cost and lower its profit margins significantly (as evidenced between the first and second contracts).

A possible challenge for BHC is regulations. Different municipalities often have different bylaws governing the dismantling permit application process. Some of the typical requirements before the dismantling process can begin include proof of ownership by government entity and lawyer, application for heavy equipment permit and inspections of structural integrity and hazardous materials by registered professionals.

Other Federal and Provincial agencies such as WorkSafeBC and Work Safe Alberta also govern and oversee the safety and working conditions during the dismantling process. Federal environmental legislation also set strict standards on the treatment of hazardous materials.

Kathleen Project

In April 2010, BHC became a party to an asset sale agreement between Mr. Doug Allan and Petroquimica Rio Tercero S.A. of Argentina to provide disassembling services to an ammonia plant in Alberta for export to Argentina. The disassemble process began in June 2010, and was completed in August 2010. **Total consideration for the job was \$1.66 million, and the net profit before tax was \$668,255 (40% margin).** \$1 million of the revenues were recognized during FY2010, and the remaining was recognized in FY2011.

Kitimat Project

In February 2011, BHC signed its second contract to dismantle an ammonia plant and a methanol plant for Koyo Development Co. Ltd. and Gurungan Lotusan Natural Gas Chemicals Co. Ltd. for a total consideration of US\$20.4 million (US\$17.5 million original contract + US\$2.9 million additional compensation for contract amendment). The project began in February 2011, and was expected to be completed by December 2011.

On November 14, 2011, Koyo provided notice of termination for the contract. Blue Horizon has been credited US\$15.9 million of the total US\$20.4 million. The remaining US\$4.5 million payment is now subject to further negotiation or legal action. The original expected profit was \$2.5 million before tax (12.4% margin). However, upon the termination of the contract, we believe the margins for this contract will be lower than originally expected.

According to management, the project was approximately 80% completed. Koyo and Gurangan experienced logistic/cash issues which led to the termination of the contract.

Conclusion

In our opinion, Blue Horizon is a new player in the dismantling market with limited history and track record. Management team has indicated significant upside potential in this sector based on projects in the pipeline. We are optimistically cautious at this moment and would like to see more traction before assigning a fair value estimate on Blue Horizon Contracting.

Management and Board

As of August 26, 2011, Mr. Don Allan held 8% (8,469,003) of the total common shares outstanding. Mr. Doug Allan, founder of Blue Horizon, holds 45% (32,907,024) of the total common shares outstanding. Together, Mr. Don Allan and Mr. Doug Allan own 53% of the outstanding shares. We believe such ownership aligns the interest of management strongly with investors.

One thing to note is that Blue Horizon is a relatively new public company, listed on September 14, 2011, and it is common for senior management / founders of new companies to hold a material interest in the company.

Brief bios of the management team and board members, provided by the management are detailed below.

Management

Don Allan, President & C.E.O. & Chairman

Mr. Allan leads the Blue Horizon Group of Companies. Mr. Allan has more than two decades of executive leadership experience and a thorough understanding of corporate issues including; debt and equity capital markets, strategy and planning, risk management and investor relations. Mr. Allan has an extensive background in business development, marketing and project development, as well as involvement in the construction of Syncrude, Suncor, Shell, Nova, Petro Canada and Imperial Oil's refineries and upgraders. Mr. Allan has sat on numerous boards including the Government of Alberta's Hydrocarbon Upgrading Task Force. His formal education includes Mechanical Engineering and various trade tickets. Mr. Allan has earned numerous manufacturing awards and was runner up for the Ernst & Young "Entrepreneur Of The Year" award in 2007.

As mentioned earlier, Peace River Oil (P.R.O.) Inc. was partially owned by Mr. Don Allan which later sold its oil sands assets to Blue Horizon in 2007. At the time, P.R.O. was developing and constructing a bitumen processing plant, Bluesky Upgrader, in Alberta. Our research indicates that P.R.O. had some of its assets liquidated under the order from the Court of Queen's Bench of Alberta to repay its debtors.

Michael Koenig, C.F.O. & Director

Mr. Koenig is a partner with Davis Martindale Chartered Accountants. Michael's practice specializes in a wide spectrum of client business, tax and accounting services. He achieved his CGA designation in 1984 and became a Certified Financial Planner in 2000. Michael

also serves on the boards of Canadian Quantum Energy Corporation and Sundance Energy Corporation, TSX Venture Exchange listed companies.

Clint Melnechenko, BA, Vice President of Operations

Mr. Melnechenko has over 18 years of experience in the oilfield industry, holding senior supervisor and consultancy positions on numerous high-profile domestic & international projects for major oil & gas companies including; Project Management Senior Supervisor, International Consultant (Drilling Optimization) & CEO / COO of Exile Drilling Ltd. Clint has participated in projects within North America, Latin America, Thailand, Russia, Pakistan, Middle East, Australia and West Africa, managing both offshore and onshore drilling projects ranging from under balance deep horizontals wells to vertical test and exploratory holes.

Roderick Facey, Ph.D, P. Eng, CD Consulting Engineer

Roderick is a Professional Engineer registered in the Provinces of British Columbia, Alberta, Saskatchewan and Ontario. He possesses graduate degrees in Environmental Engineering, having completed a Master of Science and a Doctor of Philosophy in Environmental Engineering at the University of Alberta. He has over 25 years of experience. His extensive experience includes; industrial waste management, water and wastewater treatment, heavy oil, renewable energy and power production. His heavy oil experience includes; research and technology development, technology assessment, process trouble shooting, detailed engineering of in-situ heavy oil processes, chemical flood and industrial waste management of oil field wastes. He has participated in numerous research and technology projects that involved conceptual design through to commercialization of new technologies, examples of which include catalytic and non-catalytic heavy oil upgrading technologies at the battery, alternative technologies to conventional SAGD and enhanced oil recovery in chemical flood applications. He possesses considerable experience in waste to energy technologies as it relates to oil field wastes and heavy oil. Some of which include the KDV technology, deasphalting of oil technology, oil-water separation, direct fire of neat bitumen and thermal energy recovery systems.

Bob Lloyd, Consulting Project Superintendant

Mr. Lloyd has over 20 years of experience in the oil and gas industry. Mr. Lloyd founded and managed companies still working in the service industry today. Mr. Lloyd's accomplishments in post secondary education have elevated him into senior management positions past and present. Several government committees have benefited from having Mr. Lloyd's input.

Carlos Vasquez, Senior Vice President, Operations

Mr. Vasquez has over 10 years of experience in the oil and gas industry, specializing in completions. With his vast international experience and bilingualism in English and Spanish, he is a great addition to the Blue Horizon Group of Companies. Carlos has worked throughout Alberta, the U.S. and also in the Asia Pacific region. Throughout his career he has worked for several companies in increasing capacities. Carlos also has extensive experience in business development and venture capital.

Darcy Grahn, Senior Vice President, Business Integration

Mr. Grahn's experience in the banking industry as a Financial Services Manager in Commercial and Personal banking has provided him with a solid base of knowledge in finance. Darcy's experience as a Financial Manager and General Manager in the automotive industry is proving to be invaluable as he helps manage and grow in particular Blue Horizon Contracting and Blue Horizon Bio-Diesel.

David Allan, CSO, Consulting Health and Safety, Field Manager

David has 10 years of lead management role experience in industrial construction and drilling. David has extensive trade experience including; electrical and pipefitting, a business diploma and the highest education in Canadian Safety Standards.

There are four members on Blue Horizon's board. Two are internal directors, Mr. Don Allan and Mr. Michael Koenig, and two are external directors, Mr. Eric Leslie and Mr. C. Robin Ray.

Eric M. Leslie - Director

Mr. Leslie began working in the oil & gas industry in 1978 as a petroleum landman for both major and small independent oil and gas companies. In 1991 he founded Merchant Equities Capital Corp., a private company that provides venture capital financing, financial workouts and restructuring consulting management services primarily to early stage companies. Mr. Leslie also co-founded Merchant Equities Investments Inc. leading a variety of transactions including reverse takeovers, initial prospectus offerings, takeover bids, facilitation of taking over twenty companies public on various stock exchanges in Canada and the sale of assets and vend-ins to Capital Pool Corporations. Mr. Leslie has an extensive background in corporate governance and has served as a senior officer and director of a number of diversified private and public companies.

C. Robin Ray - Director

Mr. Ray is a Certified General Accountant. Since 1995 Mr. Ray has been a partner in the general accounting firm, MacNevin & Ray. Mr. Ray served from April 2001 to August 30, 2011 as the Chief Financial Officer and a Director of MLB Industries Inc., the Reporting Issuer that amalgamated with Blue Horizon Energy Inc. and changed its name to Blue Horizon Industries Inc. Robin brings extensive business experience to the board of Blue Horizon Industries.

Strength of Board

We believe that the Board of Directors of a company should include independent or unrelated directors who are free of any relationships or business that could materially interfere with the director's ability to act in the best interest of the company. An unrelated/independent director can be a shareholder. Our rating on BH's board is shown below.

	Poor	Average	Good
Two out of four directors are independent		X	
None of the directors have filed for personal bankruptcy in the last 10 years. *see notes below		X	
All directors hold shares in the company			X
The Audit committee is composed of three board members, two of which are independent		X	
The Compensation committee is composed of three board members, two of which are independent		X	

* As mentioned earlier, Peace River Oil (P.R.O.) Inc., which was under Mr. Don Allan's management, had some assets liquidated in 2008 under court orders.

Financials

Revenues

Blue Horizon Industries Inc. started generating revenues through Blue Horizon Contracting in 2010, by completing the Kathleen dismantling project. The company completed 80% of the second dismantling project, the Kitimat Project. (which was recently terminated by the client for the reasons mentioned earlier.)

The Kathleen Project generated \$1.66 million in revenues and \$668,225 in net earnings before tax (40% margin). Of the \$1.66 million, ~\$1.00 million was recognized in FY2010, and the remaining was recognized in FY2011.

Projected revenues for the Kitimat Project were \$20.4 million and the expected net profit was \$2.5 million (12.4% net margin). The company received \$15.9 million before the termination of the contract. The remaining \$4.5 million is subject to further negotiation or legal action. The company recognized a loss of \$3.3 million.

Overall revenues for FY2010, and FY2011, were \$1.01 million, and \$5.67 million, respectively. For Q1-2012, revenues were \$6.43 million. Our revenue forecasts do not include any potential revenues from future dismantling contracts, but includes potential revenues from the Blue Horizon Bio-Diesel operation. Our revenue forecasts for FY2012, and FY2013, are \$10.94 million and \$14.32 million.

Cost of Sales

Cost of sales in FY2010, and FY2011, were \$698,705, and \$8.50 million, and were related to the dismantling projects. Note that the \$8.50 million cost of sales recognized in FY2011 includes the \$3.25 million loss mentioned earlier. We expect cost of sales for FY2012, and FY2013, to be \$7.82 million and 9.46 million respectively.

Selling & General Admin and Other Operating Costs

SG&A and other operating expenses were \$1.02 million and \$1.83 million for FY2010, and FY2011, respectively. Included in these cost figures are office rent, salaries, professional fees and stock-based compensation. Our estimates for SG&A and other operating expenses are \$2.34 million, and \$3.38 million, for FY2012, and FY2013. For Blue Horizon Bio-Diesel, we have assumed \$0.09 per liter of biodiesel produced as SG&A expenses - which is more conservative than management's expectations.

The table below shows margins for the past two fiscal years along with our forecasts.

Margins	2010A	2011A	2012E	2013E
Gross Margin	30.62%	(49.75%)	28.50%	33.91%
EBITDA Margin	(70.65%)	(82.03%)	7.12%	11.36%
EBIT Margin	(70.90%)	(82.20%)	2.08%	3.76%
Net Margin	(59.48%)	(83.38%)	1.61%	2.93%

Source: Fundamental Research Corp.

Net Income, EPS and Margins

For FY2010 and FY2011, Blue Horizon generated a net loss of \$599,023 (EPS: -\$0.011) and \$4.73 million (EPS: -\$0.065), respectively. Q1-2012 net loss was \$1.09 million (EPS: -\$0.014). We expect the bottom line to turn positive in FY2012 to \$175,918 (EPS: \$0.001) and \$419,148 (EPS: \$0.002) in FY2013.

Cash Flows

Operating cash flows were \$354,180 in FY2010, and increased in FY2011 to \$972,756. The positive operating cash flows were used to partially fund daily operations and investment in other assets. Blue Horizon also had to pursue equity financing to finance its investment and operations. In FY2010 and FY2011, financing cash flows were \$442,965 and \$692,926, respectively.

We expect Blue Horizon will need a significant amount of equity financing going forward to meet short-term payables and finance investments. We estimate Blue Horizon will need to raise \$17.88 million in equity in FY2012, and \$14.88 million in equity in FY2013. The majority of the financings will be used towards the construction of the biodiesel plants.

The table below shows cash flow activities along with our forecasts.

Cash Flows	2010A	2011A	2012E	2013E
Operating Cash Flow	354,180	972,756	(235,898)	272,155
Financing Cash Flow	442,965	692,926	18,639,118	14,116,605
Investing Cash Flow	(53,016)	(916,867)	(17,091,322)	(14,076,966)
Net Change in Cash	744,129	748,815	1,311,898	311,794

Source: Fundamental Research Corp.

Balance Sheet & Liquidity

At the end of Q1-2012, Blue Horizon had \$550,290 in cash and \$1.43 million in account receivables. Its working capital deficit at the end of Q1-2012 was \$5.28 million. We do expect the figure to improve going forward (subject to financing).

Liquidity	2010A	2011A	2012E	2013E
Cash and Cash Equivalent	562,179	1,310,994	2,622,892	2,934,686
Working Capital	(558,014)	(1,178,717)	(1,610,967)	(1,056,193)
Current Ratio	54.22%	42.56%	47.74%	70.90%
Debt / Capital	4.11%	2.52%	3.65%	0.47%
LT Debt / Capital	-	-	-	-

Source: Fundamental Research Corp.

Proposed financing – On November 8, 2011, Blue Horizon announced its plans to pursue a \$2.0 million equity financing. The proposed financing includes the issuance of 10 million shares at \$0.20 per share.

Options and Warrants

As of October 31, 2011, Blue Horizon had 7.10 million stock options and 2.06 million warrants outstanding. The average exercise price for the stock options is \$0.25. The average exercise price for warrants is \$0.12 with a maturity date of September, 14, 2013. Blue Horizon will be able to raise up to \$2.02 million if all outstanding options and warrants are exercised.

Valuation

We applied a sum of parts valuation approach to value Blue Horizon. **Our intrinsic value per share is \$0.30.** The table below shows the values we have assigned to each of the divisions.

Blue Horizon Industries Inc. Valuation (All figures in million CAD, except for per share data)		
Fair Value of BH Bio-Diesel		27.56
Fair Value of BH Contracting		-
Fair Value of BH Mining		0.72
Fair Value of BH Energy (Oil & Gas)		1.70
Total Fair Value		29.98
Add: Net Working Capital - LT Debt		(6.90)
Fair Value to Equity Holder		23.08
Current Shares Outstanding - January 2012		75.95
Net Dilutive Securities (Treasury Stock Method)		0.41
Total Shares		76.36
Fair Value per Share	\$	0.30

We have made the following assumptions to derive the intrinsic value of Blue Horizon.

- Value of Blue Horizon Bio-Diesel was based on our NPV estimate presented earlier.
- Assigned no value to Blue Horizon Contracting at this time for conservatism. Although management is confident they will be able to win new contracts, we are would like to see more traction before assigning a fair value estimate on Blue Horizon Contracting.
- Valued Blue Horizon Energy and Blue Horizon Mining based on the book value of its projects. We applied a 25% discount for conservatism. We will assign a valuation once we are in a position to estimate reserves/resources on its projects.

Rating

Based on our review of the company's business model, management team, upside potential and valuation, we initiate coverage on Blue Horizon Industries Inc. with a BUY rating and a fair value estimate of \$0.30 per share.

Risks

The following risks, though not exhaustive, may cause our estimates to differ from actual results:

- The company has a working capital deficit - BH has to raise cash through financing or generate cash flows from its contracting division to fund this deficit.
- BHBD requires a significant amount of financing. Any delay in financing will negatively impact our valuation.
- Investors should be aware that there can be delays in construction (associated with the biodiesel plants).
- BHBD's valuation will be affected by future changes in feedstock costs and diesel prices. Other factors that will affect BHBD includes price of substitutes and supply from other biodiesel plants within Canada and United States.
- No long-term track record in dismantling projects. There is no guarantee the company

- will secure additional profitable projects.
- Ability to secure required permits for dismantling projects on time.
- None of the resource projects have resource estimates.

We rate the company's shares a RISK of 5 (Highly Speculative).

Appendix 01 – Income Statement

Income Statement				
<i>(Year ending July 31)</i>	2010A	2011A	2012E	2013E
Revenue	1,007,113	5,674,108	10,942,583	14,315,676
COGS	698,705	8,497,136	7,823,490	9,461,204
Gross Profit	308,408	(2,823,028)	3,119,093	4,854,472
Other Operating Expenses	1,019,925	1,831,674	2,340,000	3,227,705
EBITDA	(711,517)	(4,654,702)	779,093	1,626,768
D&A	(2,556)	(9,397)	(551,512)	(1,088,697)
EBIT	(714,073)	(4,664,099)	227,582	538,070
Interest Expense	(5,418)	(3,018)	(3,018)	(3,018)
Interest Income	-	-	-	-
EBT (Continue Operation)	(719,491)	(4,667,117)	224,564	535,052
Other Unusual Items	120,468	(119,627)	-	-
EBT including Unusual Items	(599,023)	(4,786,744)	224,564	535,052
Taxes	-	-	(44,913)	(107,010)
Comprehensive Income (Loss)	(599,023)	(4,786,744)	179,651	428,042
Non-controlling Interest	-	55,762	(3,733)	(8,894)
Comprehensive Income (Loss) to	(599,023)	(4,730,982)	175,918	419,148
EPS	(\$0.011)	(\$0.065)	\$ 0.001	\$ 0.002
Basic Shares OS	55,865,500	73,126,721	147,436,773	206,936,773

Appendix 02 –Balance Sheet

Balance Sheet				
<i>(Year ending July 31)</i>	2010A	2011A	2012E	2013E
ASSETS				
Current Assets				
Cash	562,179	1,310,994	2,622,892	2,934,686
Account Receivables	9,541	2,476,884	476,884	476,884
Goods and Services Tax Recveibables	-	117,881	117,881	117,881
Prepaid expenses and deposits	65,586	351,471	351,471	351,471
Advanced from related parties	128,730	-	-	-
Total Current Assets	766,036	4,257,230	3,569,128	3,880,922
PP&E	15,315	49,025	12,997,514	25,408,816
Deposits	-	636,304	316,667	316,667
Mineral Interest	-	460,937	1,560,937	2,910,937
Intellectual Property (intangibles)	650,000	650,000	650,000	650,000
Goodwill	244,749	244,749	244,749	244,749
Petroleum and Natural Gas Assets	3,123,432	3,866,557	4,579,101	4,591,645
Biodiesel License	-	-	1,753,200	993,200
Other	-	-	25,578	-
Total Assets	4,799,532	10,164,802	25,696,874	38,996,936
LIABILITIES				
Current Liabilities				
Accounts Payable and Accruals	741,835	5,149,143	4,891,686	4,647,102
Wage Payable	250,795	37,796	37,796	37,796
Deposits	-	-	-	-
Deferred Revenue	81,009	2,536,546	1,536,546	536,546
Payable to Shareholders	59,394	64,767	64,767	64,767
Accrued loss on contract	-	2,029,240	-	-
Advances from related Parties	252,026	184,241	185,846	187,451
Share Subscriptions Receipts	20,000	-	-	-
Current Portion of LTD & capital lease	7,686	-	760,000	-
Total Current Liabilities	1,412,745	10,001,733	7,476,641	5,473,662
Asset Retirement Obligation	-	5,580	5,580	5,580
LT Debt for Biodiesel License	-	-	-	-
Total Liabilities	1,412,745	10,007,313	7,482,221	5,479,242
SHAREHOLDER'S EQUITY				
Share Capital	5,228,788	6,474,234	24,024,234	38,899,234
Warrants	15,616	15,616	21,936	21,936
Contributed Surplus	585,720	585,720	906,913	906,913
Non-controlling Interest	-	256,238	259,971	268,865
Deficit	(2,443,337)	(7,174,319)	(6,998,401)	(6,579,253)
Total Shareholder's Equity	3,386,787	157,489	18,214,653	33,517,695
Total Liabilities and Shareholder's Equity	4,799,532	10,164,802	25,696,874	38,996,936

Appendix 03 – Cash Flow Statement

Cash Flow Statement				
<i>(Year ending July 31)</i>	2010A	2011A	2012E	2013E
Comprehensive Income (Loss)	(599,023)	(4,730,982)	175,918	419,148
OPERATING CASH FLOW				
Non-cash Items				
Depreciation and Amortization, Tot	2,556	9,397	551,512	1,088,697
Future Income Tax	-	-	-	-
Non-controlling interest	-	(55,762)	3,733	8,894
All other non-cash items	296,348	2,150,947	-	-
Total Non-cash Items	298,904	2,104,582	555,244	1,097,592
Change in Working Capital				
Accounts Receivable	(5,071)	(2,467,419)	2,000,000	-
Inventory	-	(117,881)	-	-
Prepaid Expenses and Deposits	(65,586)	(600,688)	-	-
Accounts Payable and Accruals	595,905	4,542,606	(257,457)	(244,584)
All other WC	129,051	2,242,538	(2,709,603)	(1,000,000)
Total Change in Working Capital	654,299	3,599,156	(967,060)	(1,244,584)
Total Operating Cash Flow	354,180	972,756	(235,898)	272,155
FINANCING CASH FLOW				
Advances from Related Parties	-	31,605	31,605	31,605
Repayment of Advancement	(102,666)	(92,366)	(30,000)	(30,000)
Issue of Common Shares, net of cost	553,521	444,000	17,877,513	14,875,000
All other financing CF	(7,890)	309,687	760,000	(760,000)
Total Financing Cash Flow	442,965	692,926	18,639,118	14,116,605
INVESTING CASH FLOW				
Purchase of Mineral Tenure	-	(135,936)	(1,100,000)	(1,350,000)
Purchase of PP&E	(10,185)	(43,106)	(13,500,000)	(13,500,000)
Purchase of petroleum and nat gas int	(42,831)	(737,825)	(712,544)	(12,544)
Purchase of Biodiesel License	-	-	(1,753,200)	760,000
Other Investing Activities	-	-	(25,578)	25,578
Total Investing Cash Flow	(53,016)	(916,867)	(17,091,322)	(14,076,966)
Change in cash	744,129	748,815	1,311,898	311,794
Cash at Beginning of Year	319	562,179	1,310,994	2,622,892
Cash at Ending of Year	562,179	1,310,994	2,622,892	2,934,686

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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