AIM Advisers, Inc.
Maximizing Present & Future Value

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First U.S. Company IPO on AIM since July 2008 Raises $80 Million

Overview

Seattle-based HaloSource raised $80 million ($50m for the Company and $30m for Selling Shareholders) in October 2010 on the London Stock Exchange's (LSE's) Alternative Investment Market (AIM) in the first AIM IPO of a U.S. company since July 2008.

HaloSource is a clean water and antimicrobial technology company that manufactures products and out-licenses proprietary technology for the water treatment and antimicrobial coatings markets. The Company was founded in the 90s with its core water-cleansing/antimicrobial technologies licensed from Auburn University and the University of California. The Company's main operations are in the U.S. with subsidiaries in the emerging markets of India and China and a future sales focus on Brazil. As of August 31, 2010, the company had 115 employees; 84 in the United States, 20 in India and 11 in China.

Key Listing Metrics

- $50.3m gross was raised for the Company, $46.2m net of offering costs, intended to be used for:
  - $14.5m - Repayment of debt
  - $10.0m - Funding of capital expenditures for new plants
  - $10.0m[1] - Funding of future acquisitions
  - $11.7m[2] - Working capital
- Offering costs amounted to 8.1% of the gross capital raised for the Company
  - Undertaken on a 'best efforts' basis, as opposed to being underwritten
    - Broking commission of 4.5%
    - Plus an additional 0.5% at the discretion of the Company
  - Corporate finance fee of £125k ($200k)
- Opening market capitalization of $159.3m
- Dilution to existing shareholders of 31.6%
- Free float of 78%
- PE & EBITDA multiples N/A given losses
- Trailing and forward revenue multiples of 13.5 and 9.3, respectively
- Share price gain on first day of trading of 20%, currently 11% as of November 1, 2010

Key Financial Metrics

(in USD millions)	Y/E 12/31/07	Y/E 12/31/08	Y/E 12/31/09	Δ from 2007	Δ from 2008
Revenue	$9.6	$10.1	$11.8	+23%	+17%
Cost of Goods Sold	4.5	5.1	6.0	+33%	+18%
Operating Expenses	11.7	13.4	12.9	+10%	-4%
Other Expenses and Taxes	1.4	0.9	2.4	+71%	+167%
Loss from Continuing Ops.	8.1	9.3	9.6	+19%	+3%
Accumulated Deficit	37.3	46.0	54.9	N/A	N/A
Cash and Cash Equivalents	5.6	9.2	13.0[3]	N/A	N/A

[1] Up to.
[2] At least.
[3] Includes stock subscriptions receivable of $10.0m.

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The Company generated revenue of $8.7m for the eight months ended August 31, 2010 and expects its revenue to grow by 40% - 50% to the $16.5m - $17.7m range for the full-year 2010. The Company's market capitalization was $177.1m as of November 1, 2010, 15.0 and 10.4 times trailing and forward revenue, respectively.

Shareholder Base

The Company had 50.5m shares outstanding prior to the IPO, issued 23.3m shares in connection with the IPO and currently has 73.8m shares outstanding. The table below details those who held 3% or more prior to and after the IPO along with the collective holdings of the Angel Investors, Others and London Institutions and the Directors.

Shareholder	Pre-IPO %	Post-IPO %	IPO $ Realized
London-controlled, India/China-focused PEG	16.45	4.30[4]	$11.1m
U.K./Caribbean VC	15.40	4.02[4]	10.4
U.S. VC	8.41	5.75[4]	NIL
London Institution	7.98	5.46	NIL
European Strategic Investor	6.58	NIL	7.2
U.S. Strategic Investor	5.35	3.66[4]	NIL
Singaporean PEG	4.44	3.03	NIL
Angel Investors, Others & London Institutions	33.39	72.25	1.5
Directors	2.00	1.53[4]	NIL
Totals	100.00	100.00	$30.2

The Company was backed by two foreign PEGs, one foreign and one U.S.-based VC, one foreign and one U.S.-based Strategic Investor, one London Institution and 200 Angel Investors. The London-controlled PEG and the foreign VC sold down significant portions of their holdings and the foreign Strategic Investor exited entirely. The Angel Investors took some money off the table and the new London Institutions purchased a combination of existing shares from the Selling Shareholders and new shares issued by the Company, each ultimately holding less than 3%. The benefit to the Selling Shareholders is obvious. The benefits to the Company are a more diversified shareholder base from which to create post-IPO liquidity and new London Institutions to diversify the of risk future financings.

Board of Directors and Corporate Governance

The Board of Directors consists of two Executive Directors (CEO and CFO) and five Non-Executive Directors, all with solid resumes and a good blend of complementary experiences and skill sets.

Companies listed on AIM are not required to comply with the U.K. Corporate Governance Code, which is mandatory for companies listed on the Main Market; however, the Company intends to comply with its main provisions, where practical. The Company has made a similar commitment to comply with the Quoted Companies Alliance Guidelines and the Policy and Voting Guidelines for AIM Companies issued by the National Association of Pension Funds.

The Company has established an Audit Committee, a Compensation Committee, a Nomination Committee and an AIM Compliance and Corporate Governance Committee. Each committee consists of between two and four members with the only representation from the Executive Directors being the CEO on the AIM Compliance and Corporate Governance Committee.

[4] Subject to a 12-month lock-in and customary orderly marketing provisions for a further six months.

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Legal Considerations

While the Company retained its U.S domicile in the State of Washington, its constitutional documents were amended to incorporate the most important elements of English corporate law as follows:

1. Pre-emption Rights (i.e. anti-dilution) – Shareholders may participate in, or the Company has to obtain their approval for, the issuance of shares for cash of more than 10% of the outstanding shares during any 12-month period.
2. Notifiable Interests – Shareholders are required to notify the Company of, and the Company is required to announce, holdings at or above the 3% level and whenever a full percentage point is breached in either direction.
3. Takeovers – If any party, or parties acting in concert, accumulates a holding of 30% or more, they must make a cash offer to the other holders at the highest price they paid for the Company's shares during the last 12 months.

All of the above will cease to apply if the Company becomes a reporting company under the U.S. Exchange Act (i.e. migrates its listing to NASDAQ).

Since the company did not re-domicile into the U.K. or one of its Crown Dependencies, the Channel Islands and Isle of Man, its shares are not eligible for trading within CREST; the most common electronic system for the holding and transfer of shares in the U.K. As such, a Depository was appointed and Depository Interests were created which are eligible for trading with CREST.

Separate from the above, the Company relied on the safe harbor afforded by Regulation S of the U.S. Securities Act of 1933 so as to not have to file a registration statement with the U.S. SEC. Shares subject to Reg. S (generally, those issued in the IPO, issued one year before the IPO and/or held by affiliates) are not eligible for dematerialization and, as such, are held and traded in certificated form outside CREST. For this reason, the Company has two trading lines; however, both represent securities with identical rights.

Accounting Considerations

Since the Company did not re-domicile into a European Economic Area country, which includes the U.K., they chose to report using U.S. GAAP. While, not required, a summary of the relevant differences between U.S. GAAP and IFRS was provided.

The U.K. Member Firm of an international accountancy network acted as Reporting Accountant while the U.S. Member Firm of that same network audited the 2009 financials. The 2007 and 2008 financials were audited by a predecessor firm.

Since the 2009 audited financials became 'stale' after six months, unaudited, six-month stub periods were included for 2008 and 2009 and an unaudited pro forma statement of net assets was provided to illustrate the effect of the debt repayment and the net proceeds from the IPO on the net assets of the Company.

Other

Given the nature of the Company's business, clean water and antimicrobial technology, experts' reports on the technology and intellectual property were required.