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COMPANY INFORMATION

PolyFuel, Inc. (LSE:PYF)

Info sheet compiled October 2006

Company Eye Ranking

39/50

EDITOR'S NOTE

PolyFuel is the world leader in engineered membranes for fuel cells. The Company has developed a new family of hydrocarbon membranes that exhibit performance characteristics never before simultaneously achieved with any other fuel cell membrane material. PolyFuel's innovative hydrocarbon membrane technology is either under test at or been selected by virtually every one of the world's leading portable and automotive fuel cell system developers.

The company has filed more than 20 U.S. and international patents and it expects to receive approval for most between 2005 and 2007.

In our opinion The Company has huge potential for growth as evident from the global rechargeable battery market, valued at \$11 billion in 2003. The company is one of the few fuel cell businesses with revenue and has sufficient cash reserves to develop the business. We believe the company has a low valuation based on the potential.

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FUNDAMENTALS

Company Name	PolyFuel Inc.
Current Price	53.50p
Status	AIM
Market Cap	£33.21 m.
Shares in Issue	56,961,582 m.
Activities	developer of engineered membranes for fuel cells.
Sector	ELECTRONIC & ELECTRICAL EQUIPMENT
Corporate advisor	Hogarth Partnership Limited
Registrar	Registrars

HISTORY

PolyFuel was spun out of SRI International (formerly Stanford Research Institute) in 1999, after 14 years of applied membrane research. The company is based in Mountain View, California, and is privately held. Investors include Mayfield, Ventures West, CDP Capital – Private

Equity, Technology Partners, Intel Capital, Chrysalix Energy, Conduit Ventures, KTB Ventures, Hotung Venture Partners, Yasuda Enterprise Development, and BiNEXT, a part of the Daesung Group.

EXPANDING PORTABLE DEVICES MARKET

The growing demand for durable power from the portable devices market is likely to be the major value driver for PolyFuel. The portable devices market totalled approximately 894 million units in 2004, of which mobile phones alone accounted for 674 million units. The sale of mobile phones is likely to exceed 1 billion in 2009. The amount of energy that lithium ion and lithium polymer batteries can store is growing by approximately 8% per annum, while power

consumption by mobile devices is growing at approximately three times that rate. Furthermore, while lithium ion rechargeable batteries offer only three hours of continuous operating time, micro fuel cells could provide over 20 hours of usage time. Mobile fuel cells are likely to be commercialised in 2006 – the beginning of the long-term growth story. NanoMarkets LC, a market research agency, expects the market to be worth \$1.6 billion in 2010 and \$2.6 billion in 2012.



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ACTIVITIES

PolyFuel has developed a hydrocarbon based membrane for use in portable fuel cells. The Directors believe this membrane can enable laptops, 3G mobiles and other portable consumer electronic devices as well as military and industrial devices to deliver unlimited, unplugged run-times by 2007/08.

PolyFuel is currently working with 15 of the leading fuel cell system developers. Eleven of these are major consumer electronics manufacturers ("OEMs") and PolyFuel aims to establish its membrane as the standard for the DMFC portable power market. To date, 13 of the 15 leading portable fuel cell system developers have tested or are in the process of testing PolyFuel's membrane. Of the 13, eight have now completed their evaluation testing and all eight have gone on to purchase PolyFuel's membrane.

PolyFuel is ready to support its world leading OEM customers, having established, its Directors believe, market leading capabilities for continuous roll-to-roll membrane fabrication; catalyst application to membrane; extensive testing infrastructure and rapid prototyping capabilities.

Whilst it is the Directors' intention to concentrate on the portable device market for consumer electronics, industrial and military applications, PolyFuel is also developing hydrocarbon membrane technology for use in automotive fuel cells. Several of the world's leading car manufacturers have indicated that membrane improvements are required in this market as well. These companies are actively involved in the evaluation of PolyFuel's membrane. Although this market will take longer to come on stream, the automotive market has the potential to be even larger than the portable fuel cell market.

LIST OF CLIENTS

PolyFuel's first DMFC hydrocarbon membrane is actively being evaluated by virtually all of the leading fuel cell manufacturers worldwide: Fujitsu, Sanyo, Sharp, Hitachi, Toshiba, Samsung, Sony, IBM, LG, NEC.

In April 2006, The Company signed a non-exclusive Channel

Cooperation Agreement with leading fuel cell component supplier Johnson Matthey Fuel Cells Limited. Johnson Matthey intends to incorporate PolyFuel leading hydrocarbon membrane into its catalyst coated membranes ("CCM"s) and membrane electrode assemblies ("MEA"s) for sale to leading portable fuel cell system developers around the world.

DEVELOPMENT HIGHLIGHTS

Fuel cell development has historically been held back by inadequate membrane technology. PolyFuel has changed this by achieving a number of major breakthroughs with its hydrocarbon membrane technology, which have involved significant improvements in efficiency and performance over other fuel cell membrane technologies. PolyFuel has 22 patent applications that are expected to issue between 2005 and 2007.

PolyFuel has achieved the following milestones in developing the business:

1999 – 2004

* PolyFuel raises approximately \$40m via three rounds of private equity financing

2003

* PolyFuel launches a breakthrough hydrocarbon membrane that enables portable fuel cell system developers to produce smaller, lighter, lower cost and longer lasting power supplies

2004

* PolyFuel announces a break through in hydrocarbon membrane technology specific to automotive hydrogen fuel cell applications

April 2005

* PolyFuel announces the release of a 'hot bondable' variant of its portable fuel cell membrane designed for improved fuel cell manufacturability

Oct 2005

* PolyFuel membrane achieves the 5,000 hour durability milestone, demonstrating that it can more than double the useful life of a lithium ion battery

Dec 2005

* PolyFuel announces the 45 micron membrane, a higher power, thinner version of its DMFC membrane, which delivers 33% more power than the previous 62 micron version.

In recognition of its technological and market progress, The Company were particularly pleased to have been selected the 2005 Technology Pioneer of the Year by the World Economic Forum, and to be awarded the Frost & Sullivan 2005 Emerging Technology of the Year Award for developing a breakthrough fuel cell membrane technology for use in portable and vehicular applications. Previously, The Company had received a number of industry awards, including being named an Enabling Technology of the Year for 2004 by Frost & Sullivan, selected as one of Fortune Magazines 14 "Cool Companies" for 2004, and being awarded the Computerworld Honours Medal of Achievement for 2003.

Jan 2006

* PolyFuel announces the completion of a successful secondary fundraising of £10m (before expenses), with the placing of an additional 12,500,000 common shares at a price of 80p per share.



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NEW GROWTH OPPORTUNITIES

There is a significant and growing market need for enhanced portable power. The amount of energy that today's lithium ion and lithium polymer batteries can store is growing by approximately 8% per annum, mobile device power consumption is growing at roughly three times this rate, as a result of increasing capabilities such as video and wireless high speed data. These capabilities come at the cost of battery life of less than one hour, something that is frustrating users of next generation 3G handsets. Despite continuous progress in laptops in the last decade, limited battery runtime remains a feature that has not changed significantly, restricting the opportunities for use "any time, anywhere".

The worldwide portable fuel cell market is projected to be roughly 4.8 million units by 2007, rising to 26.8 million units by 2009.

Significant numbers of consumers already pay for portable battery recharging in Japan and Korea where the need is especially acute, as enhanced device capabilities are being increasingly restricted by limited run-time. Mobile phone recharging kiosks are also being introduced in the UK and Europe to support 3G handset implementation. Meanwhile, consumer frustration is expected to increase - as volumes and market share of 3G enabled mobiles and laptops grow significantly in Europe and elsewhere around the world by 2010.

To date, PolyFuel has raised approximately US\$ 40 million to fund its operations from leading US and international venture capital funds, including Intel Capital. The net proceeds of the Placing will be used to drive PolyFuel's technology to commercialisation and to provide additional working capital for the Company.

COMPETITION

Three of the top lithium ion battery manufacturers, and the majority of the global consumer electronics manufacturers such as Hitachi, IBM, Fujitsu, LG, NEC, Toshiba, Samsung, Sanyo, Sharp and Sony are actively working on developing Direct Methanol Fuel Cells ("DMFCs") for portable applications. Several of these have announced their intention to introduce portable devices powered by DMFCs within the next three years.

Unlike other technology providers in the fuel cell market, PolyFuel has chosen to focus exclusively on engineering fuel cell membranes, rather than complete fuel cell systems. By pursuing this strategy, PolyFuel has positioned itself as a neutral supplier of a key enabling membrane technology, rather than a competitor to the leading fuel cell system developers.

DIRECTORS

Robert Jecmen, Non-Executive Chairman, 55 Robert worked for Intel Corporation for 24 years before retiring in 2000. One of his most recent positions included Vice President of Intel Architecture Group where he managed Intel's Mobile Platform Group, which developed and marketed the building blocks and technologies for the laptop computer industry. Prior to this, he was Vice President of Intel's Technology and Manufacturing Group and was responsible for managing the silicon technology development and manufacturing proliferation for Intel's flash memory business and several generations of their microprocessor product line. Robert is currently working as a private consultant and as a director of Ovonyx, Inc.

Jim Balcom, President and Chief Executive Officer, 46 Jim joined PolyFuel in September 2002 from Chrysalix, the fuel cell venture capital firm, where he was Entrepreneur-in-Residence for approximately one year. Prior to Chrysalix, Jim spent four years with Sonigistix, a technology start-up in various VP positions developing and commercializing a flat panel speaker technology licensed from the University of British Columbia. He ultimately became President of the company and negotiated its sale to one of the audio industry's larger players in 2001. Prior to Sonigistix, Jim spent four years with Ballard Power Systems in senior fuel cell development engineering and fuel cell manufacturing management positions. Previously, Jim spent several years in various operating and management positions with Ball Packaging and Stuart Plastics Recycling Ltd, as well as management consulting experience with Coopers and Lybrand and Touche Ross and Partners.

Mark Campion, Chief Financial Officer, 49 Mark joined PolyFuel in April 2003. He has more than 25 years of

experience across a broad range of financial and operational disciplines. He has held senior-level positions with a number of public and private companies, including Atomic Tangerine, Trans Ocean, GRI International, Activision, and KPMG.

Graham Titcombe, Senior Non-Executive Director, 62 Graham joins the PolyFuel board as Senior Non-Executive Director at the same time as PolyFuel's Admission to AIM. Graham worked for Johnson Matthey Plc ("JM") for 42 years, holding various positions until he was appointed to the board in 1990. At the time of his retirement in 2002, he was Group Managing Director, responsible for the Precious Metals Division and the Colours and Coatings division as well as the JM board member responsible for technology. Graham's outside directorships have included Ballard Power Systems, the World Fuel Cell Council, and Infast Group Plc where he is currently Chairman.

Harry Fitzgibbons, Non-Executive Director, 68 Harry joins the PolyFuel board as Non-Executive Director at the same time as PolyFuel's Admission to AIM. Harry was a director of Hambros Bank from 1972 to 1983 with responsibility for United States corporate finance and for Hambros's portfolio of international unquoted investments. He was instrumental in establishing Boston Hambros Capital Company and Hambros International Venture Fund, both of which were venture investors in the United States. In 1982, he started Hambros Advanced Technology Trust, a venture capital fund in the UK which was a founding shareholder in Vodafone. He established Top Technology Ventures in 1986 as a venture fund manager and it is now investing its fourth fund in early



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stage technology. Harry was a Non-Executive Director of Johnson Matthey from 1990 to 2002 and is currently a Non-Executive Director of Ceres Power and Conduit Ventures Limited.

David Berkowitz, Non-Executive Director, 38 David joined the PolyFuel board as Non-Executive Director in 2002. David is Senior Vice President at Ventures West Capital where he leads the Energy & Materials Technology practice. He started in the venture capital industry with Motorola New Enterprises in 1995 and joined Ventures West the following year. He is a director of Angstrom Power, CarboPur, Cellex Power, QuestAir, Serveron Corporation and a variety of not-for-profit organisations.

Grant Heidrich, III, Non-Executive Director, 52 Grant joined the PolyFuel board as Non-Executive Director in 2000. Grant has been in venture capital for 25 years, principally at Mayfield where he is currently a Partner

Emeritus. He was a Managing Director for more than two decades for the Mayfield Funds IV-X and has also co-managed Mayfield's healthcare initiative and established the firm's highly regarded franchise in healthcare. He currently serves on the boards of several private companies including Millennium Pharmaceuticals, Cytokinetics and PolyFuel. Grant served as Chairman of the Board of Tularik until it was acquired by Amgen. Currently he is also Chairman of the Advisory Board of Harvard Partners Center for Genetics and Genomics and an advisor to Prospect Venture Partners. During his venture career, he has been on the Boards of more than 20 public and private companies. He was the past President of the Western Association of Venture Capital and a former member of the board of directors of the National Venture Capital Association.

SHAREHOLDINGS

	Number	%
Ventures West funds	6,727,653	15.1
Mayfield Fund	6,435,859	14.5
CDP Technology Ventures funds	4,730,393	10.6
Technology Partners funds	2,740,554	6.2

	Number	%
Intel Corporation	1,936,131	4.4
Conduit Ventures Limited	1,856,618	4.2
Chrysalix Energy Limited Partnership	1,827,097	4.1
KTB Ventures	1,562,500	3.5

FINANCIAL HISTORY

Profit and loss account 6 months to 30th June 2006

\$	6 months to 30 June 2006	6 months to 30 June 2005
Revenues	88,870	498,573
Costs and operating expenses		
Research and development	(2,755,304)	(2,469,115)
General and administrative	(2,499,127)	(2,006,009)
Total expenses	(5,254,431)	(4,475,124)
Loss from operations	(5,165,561)	(3,976,551)
Other income (expense), net	(13,805)	3,739
Interest income	601,494	105,760
Interest expense	(59,706)	(77,810)
Net loss	(4,637,578)	(3,944,862)
Net loss attributable to common stockholders	(4,637,578)	(5,026,403)
Net loss per share		
Basic	(0.08)	(51.29)
Diluted	(0.08)	(51.29)

Balance Sheet as at 30th June 2006

\$	30 June 2006	31 December 2005
Cash	18,685,416	13,378,449
Short-term investments	6,926,994	1,097,931
Accounts receivable	4,042	30,800
Prepaid expenses and other current assets	297,578	358,650
Total current assets	25,914,030	14,865,830
Property and equipment, net	474,675	615,764
Long-term investments	909,432	--
Other assets	195,300	82,599
Total assets	27,493,437	15,564,193
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued expenses	(963,951)	(845,371)
Deferred revenue	(100,000)	--
Current portion of finance facility and capital lease obligations	--	(464,136)
Total current liabilities	(1,063,951)	(1,309,507)
Finance facility and capital lease obligations, net of current portion	--	(36,597)
Total liabilities	(1,063,951)	(1,346,104)
Stockholders' equity	57,201	44,550
Additional paid-in capital	58,343,886	41,483,238
Accumulated other comprehensive loss	(24,324)	--
Deficit accumulated during development stage	(31,947,277)	(27,309,699)
Total stockholders' equity	26,429,486	14,218,089
Total liabilities and stockholders' equity	27,493,437	15,564,193



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RISK FACTORS

In addition to the other relevant information, the following specific factors should be considered carefully when evaluating whether to make an investment in the Company. The investment offered in this document may not be suitable for all of its recipients. Before making an investment decision, prospective Investors should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. A prospective Investor should consider carefully whether an investment in the Company is suitable for him/her in the light of his/her personal circumstances and the financial resources available to him/her. There are various risk and other factors associated with an investment of the type described in this document. In particular:

The value of an investment in the Company is largely dependent upon the expertise of the Directors and their ability to identify and acquire or invest in suitable companies or businesses. There can be no certainty that the Company will be able to identify suitable acquisition targets or complete the purchase of any identified targets at a price the Directors consider acceptable. In the event of an aborted acquisition it is likely that resources may have been expended on investigative work and due diligence, which cannot be recovered. The acquisition of other businesses can involve significant commercial and financial risks and there can be no certainty that any acquired business will not have a material adverse effect on the operations, results or financial position of the Company.

CONTACT

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RANKING

	Ranking out of 50 (50 being highest)
Business model - competitive advantage	
Competition	40
Customers	35
Low cost	45
Management	35
- corporate governance	
- quality	30
- shareholding	45
Product	45
Sector	40
Financial evaluation	
Early and profitable exit potential	40
Financial strength	
- cash flow	
- conservative accounting	
- need for funding	
Growth at a reasonable price	35
Risk	
Overall average rating	39



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FURTHER INFORMATION ABOUT THE RANKING

Competitive advantage

Companies are assessed according to their business model and how this translates into strong and sustainable competitive advantage. This can only be achieved with low cost activities and doing something different from the competition. This 'differentiation' must add value to the customer who is then prepared to pay a premium price. The differentiation is most obvious in the product but it can exist anywhere in the company's value chain of activities, such as

easy payment terms, convenient locations, superior management, and quality of suppliers. Companies that do not achieve competitive advantage because they have the same costs and/or do the same as the competition are marooned in a profitless zone. They helplessly try to compete with the one weapon left open to them, which is the disaster of cutting prices and typically leads to similar retaliation by competitors, with disastrous results.

THE FOLLOWING ELABORATES ON THE RANKING CRITERIA

Competition

How intense is the competition and are there barriers to entry?

Customers

Is the company controlling its customers and therefore its revenue streams? Are customers glued to the company and providing valuable and reliable recurring revenue or are they one-off, or 'transactional', providing shaky revenue? The company should ideally have weak and numerous customers.

Low costs

Has the company achieved low cost activities thus allowing more of the top line revenue to trickle down to the profit line?

Management

Is there good corporate governance? What is the quality of management, as this is crucial to any business? Are the directors' shareholdings significant but not so large that they control the company?

Product

Is the product different from the competition and adds value to the customer? Are there threatening substitutes? Does it have a powerful brand?

Sector

Is the company in an attractive sector that is profitable and adds value?

Services tend to be more protected than products from international competition. Does the sector ride the tailwind of multi-year mega trends? Is the business well positioned in the current stage of the economic cycle? What is its resistance to a recession?

Profitable exit potential

What is the potential for selling the share profitably? This is more applicable to pre-flotation investments.

Financial strength

Does the company have strong cash flow, the lifeblood of any business? Is the accounting conservative or is there 'accounting for growth'? Does it need more funding? Is the profit margin healthy and at least equal to its sector? What has been the track record in the growth rate of profits?

Growth at a reasonable price

Does the share offer growth at a reasonable price? This is commonly measured using the PEG. This is the price earnings ratio (PE) divided by the forecast growth rate in earnings per share (EPS). The lower the PEG the better and under 1.0 is considered good for a blue chip company and under 0.6 for a small growth company.

Risk

What is the risk rating of the share due to factors such as new markets, its business model and strategies?

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