PolyFuel Releases 4th Quarter Update

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PolyFuel, a developer of engineered fuel cell membranes for the portable electronic and automotive industries, today announces an update on trading and operations for the fourth quarter of 2006.

Customers

During the period, PolyFuel continued to strengthen its position as a leading supplier of membrane to the world's leading fuel cell system developers, the majority of which are major consumer electronics companies, including NEC, Sanyo and Samsung. As of today, PolyFuel has secured five design wins from leading fuel cell system developers who have incorporated PolyFuel's hydrocarbon membrane technology into their various prototype portable fuel cell power supplies. In each case, PolyFuel's membrane has displaced DuPont's Nafion membrane because of the superior power and efficiency characteristics of the hydrocarbon technology compared to DuPont's older fluorocarbon chemistry. There are further prospective design wins in the pipeline and the Company expects the positive trend to continue throughout 2007.

Technology

In November, PolyFuel announced the launch of a higher power, thinner version of its direct methanol fuel cell (DMFC) membrane. The 20 micron thick membrane delivers 40% more power than PolyFuel's 45 micron version, which itself delivered 33% greater performance than the Company's original 62 micron product. In conjunction with the announcement, Samsung publicly disclosed that it is working with PolyFuel and that it expected that PolyFuel's new 20 micron material would enable it to achieve a new performance milestone in its portable fuel cell development programme.

Product Durability

During the period, PolyFuel surpassed 7,000 hours of cyclic durability testing on its 62 micron DMFC membrane, far exceeding the typical durability requirements for portable fuel cell applications of 2,000-3,000 hours. Several customers have tested PolyFuel's thinner membrane materials as well, including extensive durability testing. Feedback from customers on the durability of each of PolyFuel's membrane materials continues to be very encouraging.

Regulatory Update

Regulatory activity for portable fuel cells and fuel cartridges continued to move forward as expected during the period. Regulations will be in place from January 2007 in most countries including the key Asian market where portable fuel cell product introductions are expected to begin. The Board expects these regulations will allow passengers and crew to carry and use methanol fuel cartridges and DMFC fuel cells on-board commercial aircraft. Similar legislation is expected to be adopted for each of the other modes of transportation worldwide, including road, rail and sea, as well as for the US airline industry, during 2007.

Market

During 2006, a number of events have occurred that truly underscore the growing "runtime gap" about which PolyFuel has been speaking for some time. Specifically, two key trends have emerged:

The most significant has been the recurring announcements by the world's leading wireless carriers and consumer electronics manufacturers of their deployment of video capabilities on mobile devices. As PolyFuel has discussed many times, video is the most taxing of applications for mobile devices because it uses power to stream the data and also calls on the display (which is well-known to be the most power-hungry part of a computing device) to be active at all times. The progress being made in delivering video to mobile devices is exemplified by the growing availability of a wide variety of video programming. Television channels have started offering their programming for mobile devices; video advertising is being tailored to this form factor; and additionally, the moves by leading websites such as MySpace and YouTube into mobile format are just a hint of what is to come.

Also important in 2006 was the growing difficulty that Lithium Ion batteries are having in terms of satisfying the growing energy demands of today's portable applications. This fact has been underscored by the recent recall of millions of Lithium Ion batteries due to the possibility of these batteries catching fire. PolyFuel believes that Lithium Ion battery chemistry, which is the best battery technology available today for portable devices, is simply not able to consistently deliver the extended runtimes that users are demanding of their mobile devices.

As we move into 2007, PolyFuel is confident that the accelerating growth of power-hungry mobile applications and the resulting demand for new power alternatives will drive the portable fuel cell market forward.

PolyFuel will be reporting its preliminary financial results for 2006 in April 2007.

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