

SEPTEMBER 21, 2009

ALUMIFUEL POWER CORPORATION (OTC:BB – AFPW – 0.17)

TARGET: \$0.40

RATING: SPECULATIVE BUY

COMPANY SNAPSHOT

An emerging player in the fast growing alternative energy space, AlumiFuel Power Inc. (API) is an early production stage alternative energy company that generates hydrogen gas and superheated steam for applications requiring on-site, on-demand fuel sources. API's products are tailored to serve military, Homeland Security and commercial applications. API's offering drives fuel cells for portable and back-up power, fills inflatable devices such as weather balloons, and can replace costly, hard-to-handle and high pressure K-Cylinders. API has significant differentiators in performance, adaptability, safety and cost-effectiveness in its target market applications. In addition, no external power is required and no toxic chemicals or by-products are produced or released.

KEY STATISTICS

Price as of 9/21/09 **\$0.17**

52 Wk High – Low **\$0.02 -0.18**

Shares Outstanding **240.0M**

**Market
Capitalization** **\$40.8M**

Recent Volume **160,000**

Exchange **OTC:BB**

COMPANY INFORMATION

AlumiFuel Power Corporation

<http://www.alumifuelpowerinc.com>

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INVESTMENT HIGHLIGHTS

The alternative energy market is one of the world's fastest growing industries. AlumiFuel management estimates that the U.S. hydrogen market will grow from around \$1.6 billion in 2008 to around \$5 billion in 2012. It should be noted that this estimate does not take into account the huge mobile, portable fuel cell systems, or automotive market opportunities.

Broad governmental, military, commercial, and public support for viable alternative energy options are driving deployment. AlumiFuel Power is an early production stage alternative

energy company that generates hydrogen gas and superheated steam for applications requiring on-site, on-demand fuel sources. No external power is required and no toxic chemicals or by-products are produced or released.

The Company signed a Memorandum of Understanding (MOU) with a Fortune 50 and Dow 30 Company to continue to evaluate the API technology for specific power conversion applications. This MOU is a tremendous validation of the Company's technology for mission-critical military applications and can ultimately be converted for commercial uses as well.

AlumiFuel already has lined up key path-to-market partners, including one of the World's Largest Defense Contractors. The Company's initial target applications are in the military, Homeland Security, and specific commercial markets where API has inherent advantages.

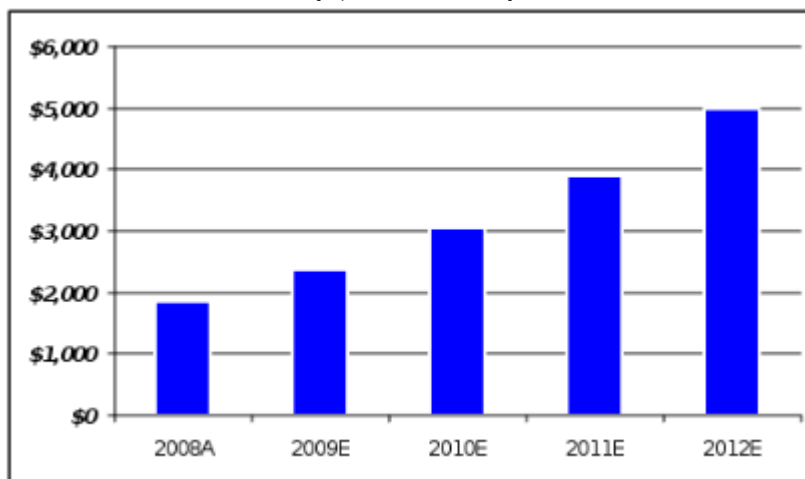
In our view, AlumiFuel is uniquely positioned to become a player in the alternative energy market. We believe that these shares will be news-driven and that the stock could reach \$0.40 as investors become more familiar with the AFPW story, and management continues to execute. Thus, we rate these shares Speculative Buy.

INDUSTRY OVERVIEW

The alternative energy market is one of the world's fastest growing industries. AlumiFuel management estimates that the U.S. hydrogen market, in which it is an emerging player, will grow from around \$1.6 billion in 2008 to around \$5 billion in 2012. It should be noted that this forecast does not take into account the huge mobile, portable fuel cell systems, or automotive market opportunities.

Chart I. Hydrogen Energy Market Forecast

(\$, in millions)



Hydrogen is the most abundant chemical element and is highly flammable. However, when hydrogen gas is ignited, it burns quickly with low heat, with a non-luminous, highly directional flame. It is safer than gasoline, as safe as natural gas, and is unlikely to explode. There are numerous applications for hydrogen gas including the processing of fossil fuels and the production of ammonia. While hydrogen is not an energy resource, hydrogen has a plethora of applications in the transportation space. Hydrogen does not produce carbon emissions, thus making it a less costly, higher efficient, and green method of transportation, especially in the automotive space. Nonetheless, while companies such as AlumiFuel are working toward that end, early adoption is currently driven by military and commercial applications. The next major stage in the next 5-10 years, broad automotive utilization, will occur once consumer awareness is raised and infrastructure changes occur.

COMPANY OVERVIEW

An emerging player in the fast growing alternative energy space, AlumiFuel Power Inc. (API) is an early production stage alternative energy company that generates hydrogen gas and superheated steam for applications requiring on-site, on-demand fuel sources. API's products are tailored to serve military, Homeland Security and commercial applications. API's offering drives fuel cells for portable and back-up power, fills inflatable devices such as weather balloons, and can replace costly, hard-to-handle and high pressure K-Cylinders. API has significant differentiators in performance, adaptability, safety and cost-effectiveness in its target market applications. In addition, no external power is required and no toxic chemicals or by-products are produced or released.

The Company's technology is based on the exothermic reaction of aluminum powder and water, combined with proprietary additives which act as catalysts, initiators and reactants. Novel packaging of the aluminum powder and additives into cartridges enables them to be inserted into a generator/reactor, where an infusion of water results in the rapid generation of highly pure hydrogen and steam.

AlumiFuel is focusing its initial marketing effort on the military and national security channels. Success is already evidenced by the signing of a Memorandum of Understanding (MOU) with a Fortune 50 and Dow 30 Company to continue to evaluate the

API technology for specific power conversion applications. These applications include Unmanned Underwater Vehicles (UUVs), manned submersibles, torpedo propulsion systems, and marine/land-based Auxiliary Power Units (APUs). The scope of the MOU includes development of operational concepts and power delivery systems, capturing funding for further technology development, and manufacturing and distribution of operational systems that may result from the joint efforts underwater propulsion. This MOU is a tremendous validation of the Company's technology for mission-critical military applications and can ultimately be converted for commercial uses as well.

Management has taken its core technology and built a wide net of offerings for related markets. These include:

- **Lift-gas generation for weather balloons. Partnered with largest weather balloon distributor. Cost-effective, portable. Solutions**
- **Portable, back-up, remote, and auxiliary power to feed fuel cells and turbines.**
- **Replacement of K-cylinders with lightweight, AlumiFuel portable cartridges. (See Image below).**

PBIS-1000 REACTOR & CARTRIDGE



Figure I. AlumiFuel Hydrogen Reactor and Cartridge

ALUMIFUEL ADVANTAGES

- **Management's approach is to produce portable, cost-effective energy solutions to varied markets.**
- **AlumiFuel produces a safe, non-toxic, environmentally safe product.**

- **Alum Fuel's technology methodology offers high purity hydrogen gas on-site, on-demand, with no external energy required.**
- **Basic R&D has been completed and early production phase can now occur.**
- **MOU is major technology validation, as are distribution relationships.**
- **The company has a solid IP portfolio, including new patent filings.**
- **Top-notch management team with history of success in the alternative energy space.**

INVESTMENT RISKS

In our view, the greatest risk to these shares is an economic one, as evidenced by the slowdown during the recession. While there is significant demand for viable alternative energy solutions, there have been some delays in procurement. Other risks include competition from companies with similar and or differentiated technologies or approaches leading to fragmentation of the market in general. We believe that AlumiFuel's unique approach, IP, and existing distribution channel negates these risks somewhat, though given that the Company is in the early production stage, it may hamper swift, broad adoption pending greater market education. In our view, all of these risks are consistent with the companies of AlumiFuel's size. Thus, investors should use progress in technology, distribution, adoption, sales and other news as a performance measure since these shares will be news-driven in the near term.

CONCLUSION

In our view, AlumiFuel is uniquely positioned to become a serious player in the alternative energy market. The Company's management team has done an admirable job in technology, market and distribution positioning. As the Company continues to execute, and news of additional MOUs, LOIs, translate into contracts we believe that the stock will be afforded a higher profile and market cap approaching the level of the peer group noted in the table below. Given that the stock is currently under the radar of most investors following this space, we believe the shares are attractive at current levels. As investors become more familiar with the AFPW story, and management continues to execute, this news-driven stock could reach \$0.40. Thus, we rate these shares Speculative Buy.

Table I. Publicly Traded Peer Analysis

Name	Symbol	9/21/2009	Market Cap
Ener1, Inc.	HEV	\$7.26	\$848.2
Ballard Power	BLDP	\$2.12	\$178.0
Fuel Cell Energy	FCEL	\$4.21	\$325.0
Plug Power	PLUG	\$0.83	\$107.3
<i>AVERAGE MKT CAP</i>			<i>364.63</i>
AlumiFuel Power	AFPW	\$0.17	\$40.8
Price Target	AFPW	\$0.40	\$96.0

Source: NASDAQ.com, Yahoo Finance, Analyst Estimates

Chart II. Recent Trading History For AFPW

(Source: Stockta.com)



ANALYST: ROBERT GOLDMAN

Rob Goldman has 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell-side analyst, Rob was a senior member of Piper Jaffray's Technology research team covering Israeli Technology and Communications Software. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group as well as the Firm's Israeli research team. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and The Blue and White Fund.

ANALYST CERTIFICATION

I, Robert Goldman, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

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