

HAMILTONCLARK QUARTERLY

HamiltonClark EnergyTech Index™

Page 1

69 publicly traded companies make up our new HamiltonClark EnergyTech Index™. This first of a kind index demonstrates better performance than the S&P or NASDAQ and a close correlation to oil prices. But will this performance continue?

Deal Terms

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We believe that the tide has turned for energy technology investing. Many reasons, but finally things look positive. M&A will be the hot area. It should be a great two years.

The Money Chase

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There are still more deals out there than there is money to invest. Energy Intelligence, Clean Technologies, and Power Generation technologies still make up the bulk of our database. But don't forget to look at E&P technologies as oil prices hit a new plateau.

Ready...Fire...AIM

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A look at the Alternative Investment Market of the London Stock Exchange. Why this has been a financing engine for so many energy tech companies. Companies should take proper aim before they launch on AIM.

Technology Matters

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It is important to take a macro-view of technologies in the energy value chain. An Energy Economist tries to put in perspective why we are in a period of sustained growth.

HAMILTON CLARK

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has been acquired by


Azure Dynamics Corporation
(TSX: AZD)

We served as exclusive financial advisor to
Solectria Corporation

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 SOLECTRIA CORPORATION
has spun off its renewable energy
inverter business


Solectria Renewables LLC

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VCA
VENTURE CAPITAL ADVISORS LLC
has made a principal investment in


Rotating Sleeve Engine Technologies, Inc.
(Austin, Texas)

We served as financial advisor to
Venture Capital Advisors LLC

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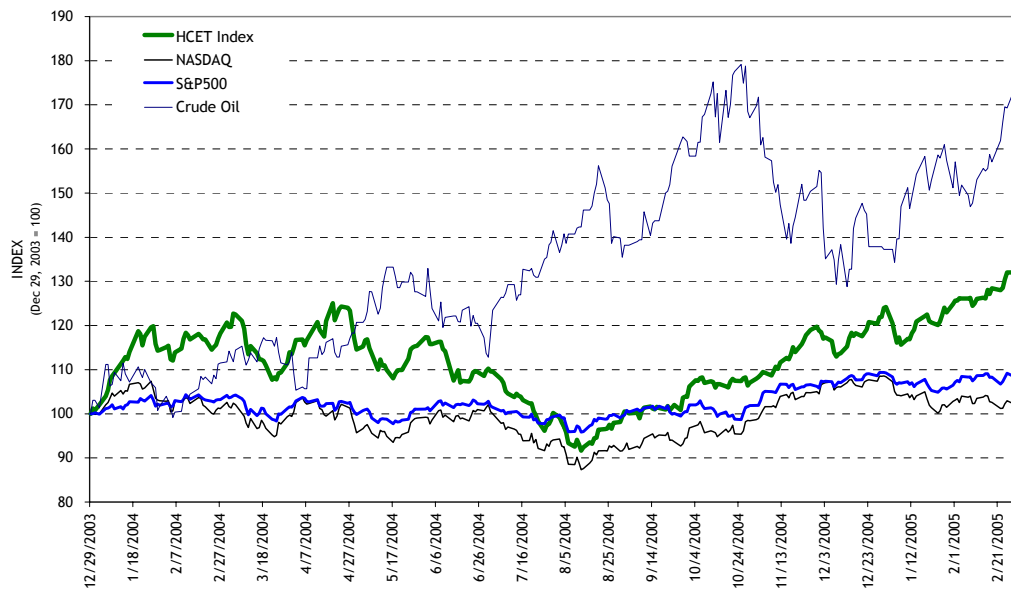
Hamilton Clark & Co. is a member of the National Association of Securities Dealers and the Securities Investor Protection Corporation.

HamiltonClark EnergyTech Index™

Himesh Dhungel, PhD

We have created an energy technology index based on 69 publicly traded companies from our database. This index is much broader than some other energy and clean tech indices. Recognizing the fact that about 90% of our energy comes from traditional fossil fuels, we have included several technology companies that are in the exploration and production (E&P) sector. Based on year-to-date performance ending March 1, 2005, the HamiltonClark EnergyTech Index™ outperformed both the S&P 500 and NASDAQ. Clean technologies, renewable energy and E&P technology segments performed particularly well.

HAMILTONCLARK ENERGYTECH INDEX™
(As of March 1, 2005)



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Our index consists of a portfolio of companies that design, develop and sell a variety of energy related technologies and services. The index measures price changes against fixed quantity of shares of each stock in the portfolio. Companies fall within five categories described on page 8 and are domiciled in North America (US and Canada) and Europe.

Year-to-date (ending March 1, 2005) the total return of HamiltonClark EnergyTech Index™ is 11.2% versus -3.8% for NASDAQ and 0.7% for S&P500. Higher oil prices (YTD price increase of 25%) appear to have also increased the demand for oil and gas technologies. This has led to a strong performance by E&P technology companies, with a 17% total return. Renewed interest in renewables and clean technologies caused by higher oil prices and government incentives helped the performance of these segments. With a total YTD return of 29%, renewable energy companies performed the best, followed by clean tech companies at 19%. The list of companies in the Index and individual performances of each segment follows.

COMPANY AND TECHNOLOGY SEGMENT	Ticker	Share Price (\$/Sh.)		Percent Change	Mkt Cap (\$ Million)
		3-Jan-05	1-Mar-05		
POWER GENERATION, POWER QUALITY, CONTROLS AND STORAGE					
1 Active Power	ACPW	\$ 4.49	\$ 3.78	-15.8%	\$ 183.8
2 American Superconductor	AMSC	14.30	10.68	-25.3%	298.3
3 Arotech Corporation	ARTX	1.61	1.38	-14.3%	111.5
4 Artesyn Technologies	ATSN	11.13	10.36	-6.9%	407.0
5 Ballard Power	BLDP	6.58	6.06	-7.9%	732.8
6 Beacon Power	BCON	0.87	1.22	40.2%	50.5
7 C&D Technologies	CHP	16.85	13.78	-18.2%	386.4
8 Capstone Turbine	CPST	1.76	1.69	-4.0%	149.1
9 Cherokee International	CHRK	8.90	7.44	-16.4%	143.9
10 Distributed Energy Systems	DESC	2.48	3.97	60.1%	147.1
11 Electro Energy Inc.	EEEI	10.40	10.11	-2.8%	123.7
12 Energy Conversion Devices	ENER	18.68	20.37	9.0%	683.7
13 FuelCell Energy	FCEL	9.90	10.80	9.1%	570.3
14 Hydrogenics	HYGS	4.69	4.40	-6.2%	305.6
15 Intermagnetics General	IMGC	24.83	26.36	6.2%	728.3
16 ITM Power	ITM	1.31	1.85	41.1%	166.7
17 Magnetek	MAG	6.75	5.02	-25.6%	148.9
18 Maxwell Technologies Inc.	MXWL	9.62	10.89	13.2%	157.0
19 Mechanical Technology Incorporated	MKTY	5.92	4.82	-18.6%	149.2
20 Medis Technologies	MDTL	17.78	18.84	6.0%	504.2
21 PECO II	PIII	1.17	1.07	-8.5%	23.0
22 Plug Power	PLUG	5.95	7.15	20.2%	550.8
23 Power-One	PWER	8.65	5.82	-32.7%	485.2
24 Powerwave Technologies	PWAV	8.27	6.84	-17.3%	760.3
25 SatCon Technology	SATC	1.96	1.76	-10.2%	58.7
26 Turbo Genset	TGN	0.22	0.24	7.1%	41.7
27 Ultralife Batteries	ULBI	19.05	16.84	-11.6%	246.9
28 Valence Technology	VLNC	3.29	2.90	-11.9%	245.3
29 Vicor Corp	VICR	13.46	11.30	-16.0%	496.9
30 Xantrex	XTX	7.71	8.28	7.4%	244.7
CLEAN TECHNOLOGIES					
31 Azure Dynamics	AZD	\$ 0.81	\$ 0.92	13.0%	\$ 127.4
32 Catalytica Energy Systems	CESI	2.29	2.45	7.0%	44.5
33 Fuel Tech N.V.	FTEK	4.66	6.51	39.7%	129.2
34 Headwaters	HDWR	27.35	32.14	17.5%	1,120.7
35 IMPCO Technologies	IMCO	7.35	5.80	-21.1%	108.6
36 KFX, Inc.	KFX	13.63	17.00	24.7%	989.6
37 Millennium Cell	MCEL	1.25	2.38	90.4%	84.1
38 Quantum Fuel Systems Tech	QTWW	6.04	5.40	-10.6%	296.2
39 Rentech Inc.	RTK	2.07	1.57	-24.2%	168.2
40 Syntroleum Corp.	SYNM	8.75	11.42	30.5%	511.1
41 UQM Technologies	UQM	2.60	4.17	60.4%	81.6
ENERGY EFFICIENCY, INFORMATION, OPTIMIZATION					
42 Allied Motion Technologies	AMOT	\$ 6.95	\$ 7.57	8.9%	\$ 47.1
43 Badger Meter	BMI	30.10	28.33	-5.9%	192.0
44 Echelon Corporation	ELON	8.15	6.97	-14.5%	300.6
45 Intergraph Corp	INGR	27.49	29.77	8.3%	977.1
46 Itron	ITRI	23.63	26.65	12.8%	570.0
RENEWABLE ENERGY					
47 Biofuels Corporation plc	BFC	\$ 2.64	\$ 3.63	37.5%	\$ 112.2
48 Environmental Power Corporation	EPG	6.94	5.05	-27.2%	25.7
49 Evergreen Solar	ESLR	4.17	5.92	42.0%	342.2
50 Gamesa Corp Tecnologica SA	GAM	13.64	13.58	-0.5%	3,321.0
51 Ocean Power Technologies	OPT	1.50	1.83	22.5%	99.3
52 Solar Integrated Technologies	SIT	2.40	1.91	-20.3%	63.9
53 Spire Corporation	SPIR	4.63	4.83	4.3%	38.9
54 Vestas Wind Systems A/S	VWS	12.17	13.13	7.9%	2,282.2
EXPLORATION & PRODUCTION TECHNOLOGIES					
55 Atwood Oceanics	ATW	\$ 50.00	\$ 68.75	37.5%	\$ 998.1
56 Bolt Technology Corp	BTJ	4.90	6.00	22.4%	32.2
57 Compagnie General de Geophysique	GGY	13.60	18.96	39.4%	1,090.3
58 Core Labs Nv	CLB	22.83	26.89	17.8%	688.8
59 Dawson Geophysical	DWSN	19.82	24.86	25.4%	138.2
60 Dril Quip Inc	DRQ	23.38	31.00	32.6%	531.1
61 Englobal Corp	ENG	2.87	2.41	-16.0%	57.2
62 HydriL	HYDL	42.80	60.07	40.4%	1,365.6
63 Input Output Inc	IO	8.40	7.38	-12.1%	557.9
64 Oceanering Intl	OII	35.89	39.90	11.2%	992.3
65 Oil States Intl	OIS	18.60	21.04	13.1%	1,036.8
66 Petro Geo Adr New	PGS	62.00	71.27	15.0%	1,433.2
67 R P C Inc	RES	23.76	26.10	9.8%	720.7
68 Tetra Technologies	TTI	27.36	31.31	14.4%	688.0
69 Veritas Dgc Inc	VTS	21.86	27.12	24.1%	889.0
Nasdaq		2152	2071	-3.8%	
S&P500		1202	1210	0.7%	
Crude Oil (\$/bbl)		40.0	50.1	25.2%	
HamiltonClark EnergyTech Index™		120.5	134.1	11.2%	

Generation, Controls and Power Quality



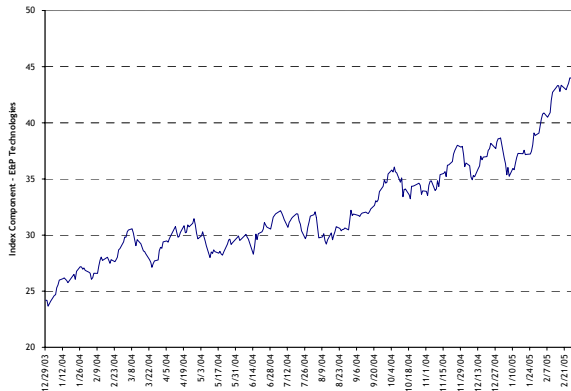
No. of companies 30
 Market cap \$9 billion
 YTD total return -0.6%

Clean Technologies



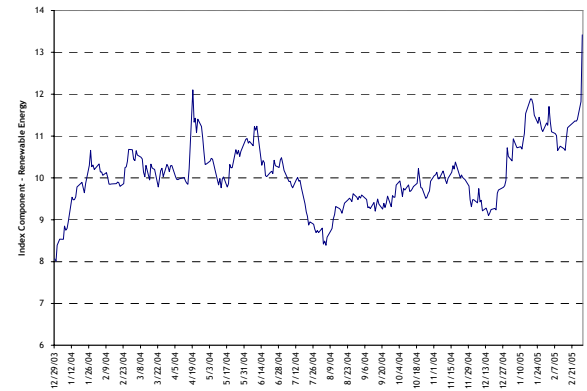
No. of companies 11
 Market cap \$3.5 billion
 YTD total return 19.2%

Energy Intelligence and Optimization



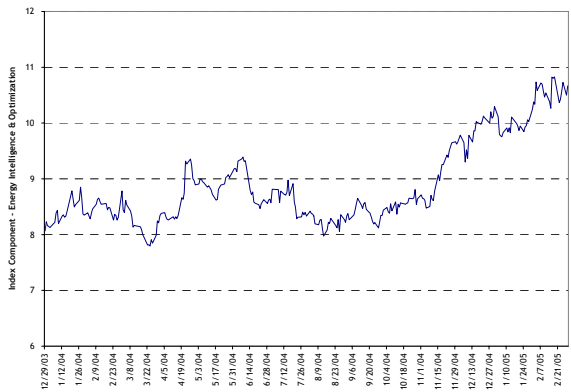
No. of companies 5
 Market cap \$2 billion
 YTD total return 5.5%

Renewable Energy



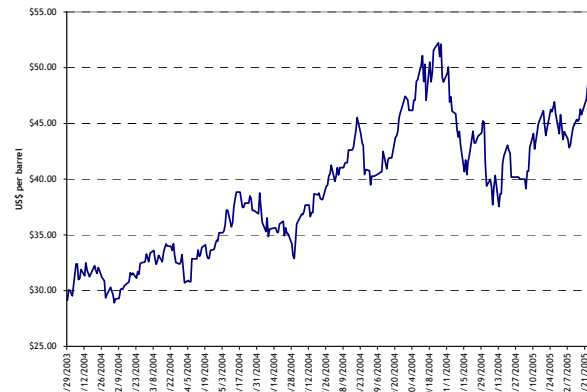
No. of companies 8
 Market cap \$6 billion
 YTD total return 28.9%

Exploration and Production Technologies



No. of Companies 15
 Market cap \$11 billion
 YTD total return 17.0%

Oil Price



YTD price increase 25.2%

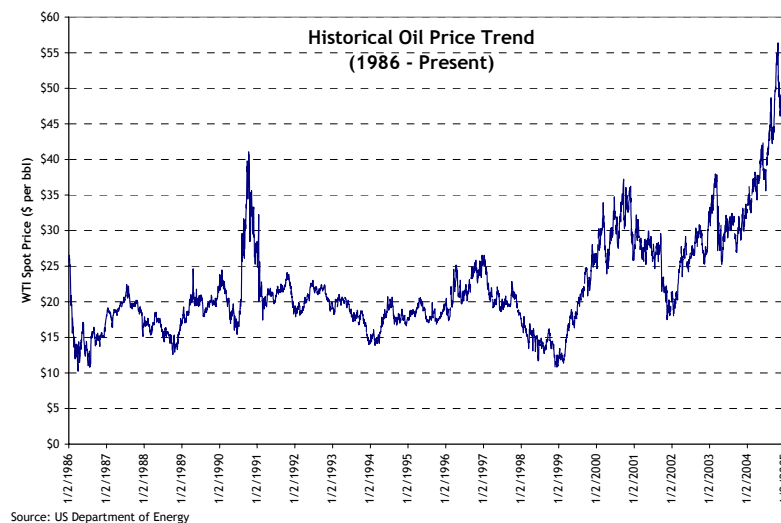
Deal Terms

John J. McKenna

We believe that the investment climate for private equity in the energy technology industry is improving. Here's why:

- *Energy prices for transportation (primarily oil) are increasing. In this climate energy tech solutions are viewed more favorably by investors.*
- *Share prices of micro-cap and small-cap public energy tech companies are moving up.*
- *More institutional and corporate investors are looking at energy tech transactions. The size of these new funds are generally larger than current energy tech investment pools.*
- *M&A activity is heating up with public companies looking at private energy tech companies to round out a more diversified portfolio of promising technologies. General partners who serve on portfolio company Boards are feeling the pressure from their limited partners for the "five year exit".*

Energy Prices are Increasing



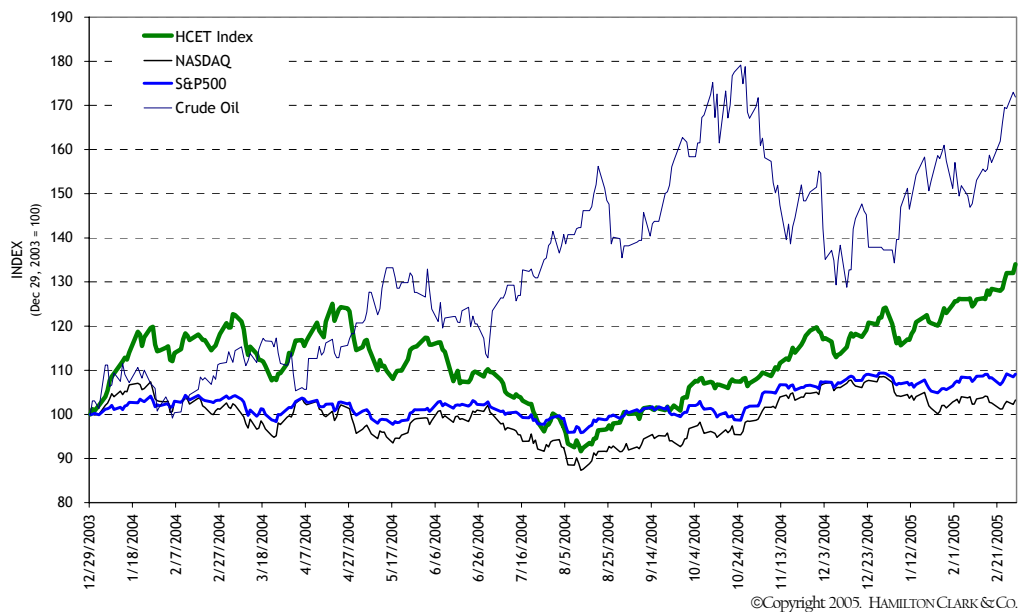
Our article on page 14 argues that supply and demand imbalance in the near term will lead to a higher plateau of energy prices. What level is anybody's guess. We have no opinion, other than that energy prices for transportation (primarily oil) will be higher. The pressure of higher energy costs will be felt throughout the economy, but will be most pronounced in those industries where energy costs are a primary component to gross margin (airlines, delivery services, freight). This pressure will result in adoption of energy efficient technologies geared to the transportation sector.

The positive impact of higher oil prices will be felt at oil and gas service and supply companies that sell into the exploration and production markets. Technology acquisition for new reserves and exploitation of existing reserves will be financed with incremental cash flow resulting from higher oil prices.

In our opinion, both of these trends will lead private equity investors (both institutional and corporate) to look at the treasure trove of under-funded private energy tech companies focused on vehicle efficiency and E&P solutions that are seeking financing at cyclically low valuations.

Positive Stock Market

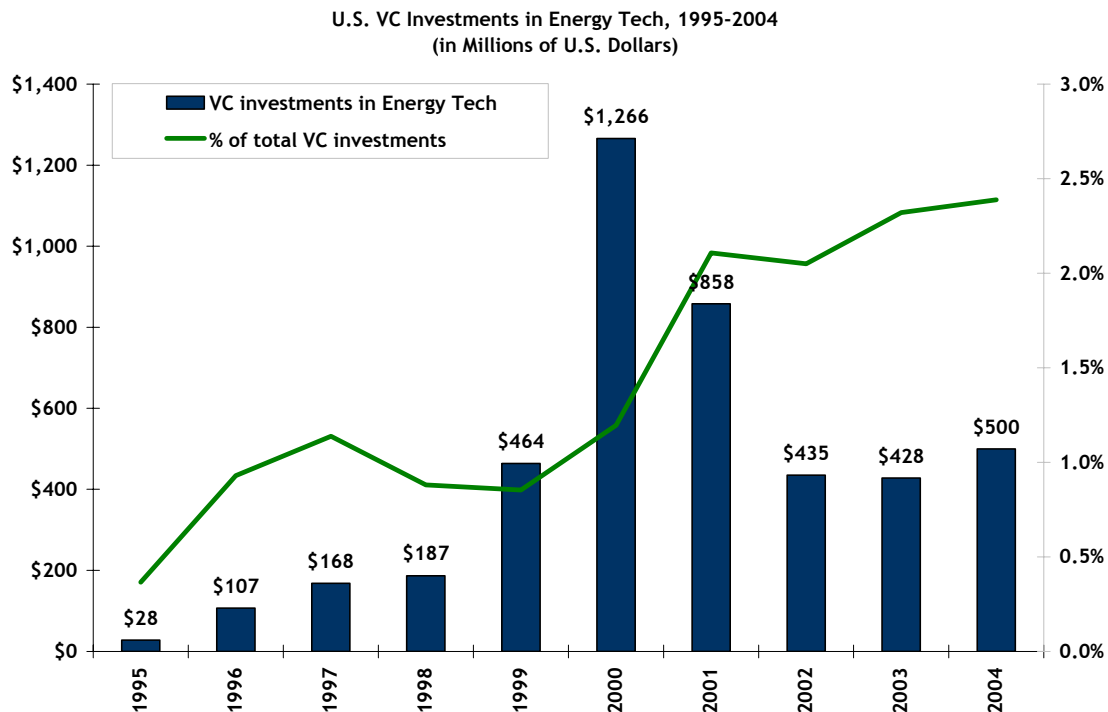
HAMILTONCLARK ENERGYTECH INDEX™
(As of March 1, 2005)



Since January 1, 2005, the HamiltonClark EnergyTech Index is up about 11%. The trend is encouraging and far better than the S&P and NASDAQ indices during this period. Our article on page 1 documents the components of the Index and suggests that there is a positive correlation between higher energy prices and investors' demand for energy tech stocks. Therefore, in a period of sustained higher energy prices, investors should be looking at undervalued energy tech stocks and bidding up their prices. The outcome of this interest will be an opening of the IPO window and more exits via the stock market.

More Money in the Sector

Unfortunately, there is no Nielsen rating for private equity interest in the energy tech sector. However, we have been attending most of the energy technology conferences and we are seeing a number of new faces. In a recent private equity engagement for a client, we had some level of interest from about 150 investors (institutional and corporate), up from about 100 interested parties on a similar deal in 2003.



Source: PwC MoneyTree, Nth Power and HamiltonClark estimate for 2004.

The size of the funds (aggregate size and un-invested capital) is also much larger. This means that agents (like HamiltonClark) and CFOs who do not use agents are having a slightly easier time shopping deals in the market. As we point out in the following article, it still war out there, but the pendulum is moving in the direction of less aggressive deal pricing and quicker deal processing.

M&A Activity

We see one other driver for 2005 that will play into many Board room discussions at privately financed energy tech companies. The issue is what I refer to as the “five year exit”. Private equity funds are generally organized for a five to seven year life, meaning that the limited partners (LPs) are expecting the fund to self liquidate in a five to seven year period, IRRs to be booked and the original capital, plus capital gains, to be freed-up for new investment partnerships.

Based on the amount of investment (\$2 billion) in 2000 and 2001 (as shown in chart above), the five year itch (excuse me, five year exit) is upon us right now and should be continuing into 2006. LPs of the well known funds will be asking their general partners (GPs) to seriously look at exit opportunities, and this will flow down the ladder to CEOs and CFOs of portfolio companies.

Other than the London Alternative Investment Market (described in detail on page 9), there has really been no IPO market to speak of over the past 36 months for this industry. We believe this will change, but right now the best exit is the M&A market. Recent transactions for Stuart Energy (public) and Hydrogenics (public); Solectria (private) and Azure Dynamics (public); Encorp (private) and Envenergy (private); and Proton Energy (public) and Northern Power (private) back in 2003 are examples of transactions where we believe two and two equaled five. In the case of private/private company mergers, even if an exit is not achieved, the larger

company is able to attract capital at more advantageous terms. We see this as the theme for 2005 and 2006.

Conclusion

We believe that the tide has turned.

Higher energy prices have moved up energy tech stock prices. Higher stock prices will lead to more aggressive M&A and PIPE strategies for public companies. More money in the system will lead to less aggressive deal terms. And more LPs will be asking their GPs to wrap up their funds by selling their portfolio holdings.

It should be a great two years.

The Money Chase

Himesh Dhungel, PhD

Energy technology companies continue to seek more capital than investors are willing to invest. In addition to capital for technology development, pre-commercial energy tech companies need product and project financing. But this is limited and very expensive. While this conundrum is endemic for equipment and project-based companies, the lack of pre-commercial capital is becoming a “gating” issue in the business.

Published below is the HamiltonClark EnergyTech Database™ of 900 companies that we track in North America and Europe.

How we organize the HamiltonClark EnergyTech Database™

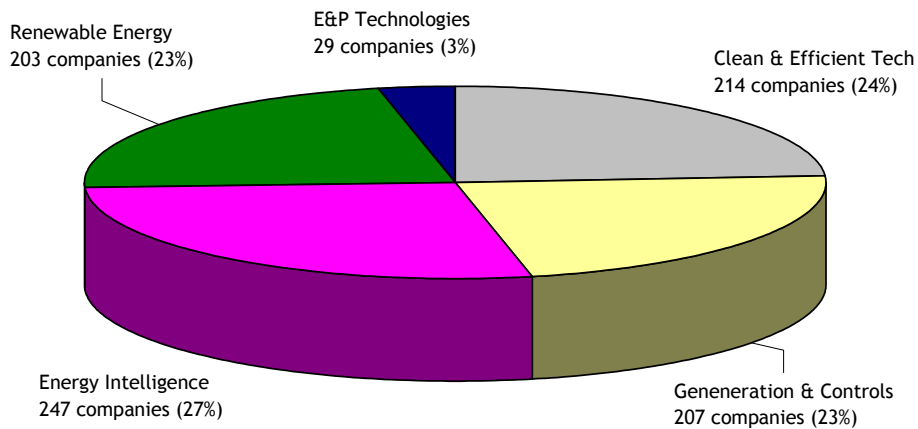
Renewable & Sustainable Energy (RE)		
BOG	Biomass/Biogas	Pyrolysis, thermal, landfill gas, coal bed methane, digesters
GEO	Geothermal	Geomagmatic, geothermal
RED	Renewable Energy Project Developer	Project developers
RES	Renewable Energy Services	Systems integrators, service providers
SOL	Solar	Photovoltaics, concentrated PV, solar thermal, solar lighting
WAT	Hydro	Generating equipment, wave energy, tidal energy
WND	Wind	Wind turbine and ancillary technologies
Clean Energy Technologies (CT)		
CFL	Clean Fuels	Methanol, ethanol, clean coal, biodiesel
CPC	Pollution Control/Clean Tech	Emissions reduction, low/zero emission combustion
CTS	Clean Water, Environmental Services	Environmental services
EFF	Energy Efficiency	Efficient lights, motors, chips, HVAC, variable speed drive
FCL	Fuel Cells and Related	SOFC, PEM, air mgmt system, stacks
H2G	Hydrogen	H2 generation, storage, transportation
VEH	Clean Vehicles	Hybrids, clean engines
RCY	Recycling	Waste-to-energy
CTO	Other CT	Clean technologies not included elsewhere
Power Generation & Power Quality (DQ)		
DGE	DG Enabling Technologies	Power electronics, controls, embedded software
DGN	Distributed Generation Equipment	Turbines, Stirling, Brayton, IC engines, CHP technologies
DGS	DG Services and Developers	Inside-the-fence, energy service companies
UPS	Uninterruptible Power Systems	Batteries, flywheels, back-up, power conditioning/quality
Energy Intelligence & Optimization (EI)		
B2B	Market-related Software	Energy B2B, marketplaces, trading software, risk mgmt
CRM	Customer Relations/Information	Utility CIS, billing, applications service providers
EEM	Enterprise Energy Management	Building energy mgmt., DSM, reporting/analysis
MET	Metering, Sub-metering	Meter, sub-meter technologies
NET	Networks/Telecom	Gateway, wireless device, powerline technology
UAM	Utility Asset Management	Superconductor, T&D tech, asset optimization
EIO	Other EI	Energy intelligence, not included elsewhere
E&P Technologies (EP)		
3DS	Exploration Technologies	Seismic/reservoir data, software, geophysical equipment
ASM	Asset Management	Sensors, monitors, remote access, data acquisition
EPS	E&P Service	Specialty material, motors, generators, pumps, compressors
EPD	Alternative Fuel E&P Developer	Unconventional fossil fuel development

Energy Technologies: A Snapshot

Since traditional fossil fuels (oil, gas, coal, and unconventional fossil fuels) still account for approximately 90% of US energy needs, we believe that it is important to track technologies that discover, produce and manage these fuels. We have added a new category to our list of energy technologies called Exploration and Production (E&P) Technologies. This category includes seismic data interpretation, reservoir management, geophysical equipment, remote data management, new exploration technologies, and ancillary products and services.

The E&P sector is a mature industry and technology development has generally taken place within large corporations. However, with higher energy prices, new technologies are increasingly being incubated and commercialized by smaller independent companies. As these technologies start to mature, E&P tech companies will seek growth and expansion capital, and strategic partnering opportunities. Currently, we track about 30 public and private companies in the E&P Technology category and anticipate adding new companies in the near future.

Among the energy tech companies that we track, about half are focused on intelligent systems, optimization, generation, quality and controls. The other half is focused on clean, efficient and renewable energy. A segment breakdown follows.



HamiltonClark EnergyTech Database™

Source: HamiltonClark research.

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Approximately 500 companies are currently looking for about \$3.4 billion of private equity. About 300 companies are looking for early-stage financing, and they account for about 50% of capital being sought. Although there are fewer late-stage companies in the market, the average size of financing sought by late-stage companies is almost double that sought by early-stage.

The lack of risk capital for late-stage, pre commercial product and project financing has hindered commercialization of many exciting technologies. Consequently, there have been a limited number of successful exits. This has perpetuated the perception that the energy technology sector has lackluster investor returns. In fact, many pre-commercial energy tech companies that went public during the boom years are still unprofitable and continue to raise money through PIPE financings.

As discussed earlier in this report, we think this situation is changing. We expect a number of exits in 2005 and 2006, via M&A, IPOs, and AIM listings and flotations.

Ready...Fire...AIM

John J. McKenna

Over the past six months we have been asked to brief CEOs, CFOs and Boards on the value of seeking Admittance to, or a Placing on the Alternative Investment Market of the London Stock Exchange (LSE).

This article attempts to summarize the issues for those interested in learning more about AIM, and in particular for energy technology companies and investors that have been following various AIM-listed energy tech companies.

AIM is a great venue for some US companies. But it's actually more complicated than it looks..

Note: HamiltonClark has been asked to consider becoming a Nominated Adviser on AIM. We have undertaken a number of assignments to advise US companies relative to Admittance or a Placing on AIM. We are also considering listing our own firm on AIM.

What is AIM

The Alternative Investment Market (AIM) of the LSE calls itself "The most successful growth market in the world". Since its launch in 1995, over 1,700 companies have been admitted, completed IPOs or have made follow-on offerings on AIM, totaling approximately £15 billion (US\$29 billion).

AIM attempts to combine the benefits of a public quotation with a less onerous, more small-company-friendly regulatory approach, wherein institutional investors can invest directly in early-stage companies without having to invest in a private equity fund that would itself invest in early-stage companies. Sort of one level of separation; versus two levels of separation (and fees) which is common in most private equity funds.

Energy Technology Companies on AIM

AIM has been very receptive to energy tech issuers. Currently, according to our definition, there are 17 energy tech companies listed. During the last 18 months approximately £123 million (US\$236 million) has been raised in AIM-related initial offerings. The current aggregate market capitalization of the 17 energy tech issues currently trading on AIM is approximately £530 million (US\$1 billion). Note: we include Turbo Genset in our AIM statistics even though it trades on the "official list" of the LSE and not on AIM.

We believe that there are a number of reasons why four of the last five energy tech IPOs in the last 18 months have occurred on AIM.

1. European investors are more receptive to energy technology issues than are US investors.
2. Sarbanes-Oxley has increased the cost of small capitalization offerings in the US.

3. There are fewer energy technology companies domiciled in Europe than in the US. In our opinion, less European deal flow has resulted in higher pre-new money valuations on AIM than we have seen in the US private equity market.

A listing of name, symbol, domicile, market capitalization and brief description of selected energy tech listings on AIM is shown below.

Symbol	Company Name	Domicile	Market Cap (EMM)	Initial Placing/Listing		Business and News
				Amount (EMM)	Date	
ADC	Azure Dynamics Corporation ⁽¹⁾	Canada	£66.8	-	Aug-04	Hybrid electric vehicles. Acquired Solectria Corporation in January 2005.
ALK	Alkane Energy plc ⁽²⁾	UK	£11.0	-	Sep-03	Biogas/CBM to electricity conversion and methane reduction. Acquisition of Farmatic Biotech Energy UK Limited and 51% investment in Anlagentechnik GmbH of Germany.
BFC	Biofuels Corporation	UK	£52.2	£15.0	Jun-04	Vegetable oil to biodiesel. Technology licensing from Energea Umwelttechnologie GmbH extended, exclusive for France, Belgium and Denmark.
CDE	Conder Environmental plc	UK	£2.0	£3.5	Dec-04	Pollution control technologies and services. Oil/water separator, packaged underground sewage treatment and bioreactor technologies.
CDT	Clean Diesel Technologies	US	£12.4	£3.6	Dec-01	Clean diesel catalyst technology. Reduces PM emissions from diesel engines.
CPO	Compact Power Holdings	UK	£3.9	£10.2	Apr-02	Pyrolysis and gasification technology. Generates power from biodegradable municipal waste.
CWR	Ceres Power Holdings	UK	£64.3	£22.0	Nov-04	Solid oxide fuel cells. Stainless steel and ceramic based fuel cell that operates on intermediate temperatures and works on gaseous and liquid fuels.
GTL	GTL Resources plc	UK	£13.7	-	Sep-98	Stranded natural gas to liquids technology. Private placement of £2 million in December 2004. Announced 3,000 tpy methanol plant in Oman.
ITM	ITM Power	UK	£68.9	£10.0	Jun-04	Polymer based PEM fuel cell technology. Technology works on liquid fuels and is based on acid and alkine-based hydrophilic
OHM	Offshore Hydrocarbon Mapping plc	UK	£69.0	£15.5	Mar-04	Electromagnetic sounding technology for exploration and production in shallow as well as deep water.
OPT	Ocean Power Technologies ⁽³⁾	US	£52.5	£25.0	Oct-03	Wave power technology. Projects with the U.S. Navy, Iberdrola of Spain and Lockheed Martin.
QAR	Questair Technologies ⁽⁴⁾	Canada	£26.0	£6.5	Dec-04	Gas purification and hydrogen technologies. Joint research with ExxonMobil.
REH	Renewable Energy Holdings ⁽⁵⁾	UK	£14.5	£10.0	Feb-05	Operator and investor in renewable energy technologies and projects. Focused on wind and wave technologies.
RUR	Rurelec plc	UK	£5.4	£0.8	Aug-04	Rural electrification. Focuses on rural electrification projects in South American countries, supported by multilateral agencies or build-own-operate projects.
SIT	Solar Integrated Technologies	US	£34.8	£12.3	May-04	Solar PV. Acquired 30% of Dachland GmbH for EU expansion.
TGE	TEG Environmental plc	UK	£6.0	£1.9	Jul-04	Waste reduction technology and projects. Advanced in-vessel composting system reduces bio-degradable waste.
TGN	Turbo Genset ⁽⁶⁾	UK	£23.5	£31.3	Jul-00	Permanent magnet generators and control systems. Announced £7.1 million financing on March 3, 2005.

NOTES: Unless otherwise, market capitalization at March 9, 2005 from <http://www.londonstockexchange.com/en-gb/pricesnews/prices/aim.htm>. Exchange rates used: £1.00 = US\$1.92; £1.00 = CDN\$2.32

- (1) Market capitalization based on TSX information converted at exchange rate. CDN\$3.0 million raised in July 2004 and £5.25 million on AIM in February 2005.
- (2) There was no concurrent Placing with the Listing.
- (3) Market capitalization based on 51.5 million total shares outstanding multiplied by £1.02 per share.
- (4) Market capitalization based on TSX information converted at exchange rate.
- (5) Market capitalization at the time of Placing and Listing.
- (6) Turbo Genset trades on the main London Stock Exchange.

Attracting Investors

Most AIM investors are sophisticated money managers, investment funds, pension funds and high net worth individuals. They invest in AIM companies based on an asset allocation to early-stage or venture capital opportunities, and then look at specialization by sector among AIM listed companies. Because most AIM investors are long term investors, there appears to be more “buy and hold” activity on AIM than might be common in micro-cap companies trading on US exchanges. In most instances when companies are raising capital on AIM, their advisers are seeking investors that actually are looking for significant three to five year capital gains similar to a limited partner in a venture capital fund. This is not to say that there are no flippers

on AIM. But for the most part, we believe that this is a market of serious investors that attempt to find good companies early, stay with them and get out after growth has occurred.

Company Benefits

From the perspective of the company and its current VC investors, AIM can give them a listing, which is quite important among European investors who demand a mark-to-market mechanism, even for early stage companies.

AIM also offers a less rigid regulatory regime (neither SEC registration nor Sarbanes-Oxley), a quicker time to market and generally lower all-in fees than would be the case in the US. However, on the regulatory front, starting in July 2005, public offers over €2.5 million (US\$ 3.3 million) to more than 100 investors will require that the prospectus be approved by the Financial Services Authority (FSA), the UK equivalent of our SEC. Just how this will be dealt with by AIM, and the cost and time delay of FSA approval, is still to be seen. The benefit of this change will be that AIM will be in complete compliance with the new European Directives that harmonize financial regulation across the European Union. Consequently, AIM companies should benefit from increased exposure to more pan-European investors that can only invest in companies that meet the new EU directives.

AIM gives companies a listed security that can be used for acquisitions, which is important to companies seeking to grow through acquisitions. It also gives general partners of VC funds a security that can be marked-to-market or distributed to LPs in winding up their funds.

How to Get on AIM

Companies can obtain a listing, in UK terminology, an “Introduction”; or an offering, in UK terminology, a “Placing” or a “Flotation”. A Placing can either be an IPO or a follow-on offering if the company has a dual listing and is already public on another exchange. An AIM listing *requires* that the company retain certain advisers and *practice* suggests that other non-required advisers are almost always part of an AIM transaction. These advisers include:

- *Nominated Adviser*, or in AIM terminology, a “Nomad”. The Nominated Adviser warrants to the LSE that the company is appropriate for joining AIM. The company is obliged to retain a Nomad throughout the period that the company trades on AIM. The Nomad may be an independent corporate finance firm, an accountant or a broker, that is approved by the LSE.
- *Broker*. This is the securities firm (member of the LSE) that sizes and prices the offering and places the offering with investors. The Broker may also be the Nomad, but some companies use two separate firms.
- *Market Makers*. In addition to the Broker, other firms may be organized to make a market in the company’s securities.
- *Accountant*. The company’s accountant is responsible for auditing the company’s financial statements. The audit may be under GAAP or international standards but must be current within the last six months. The Nomad may also retain an accountant if there is a need.
- *Lawyers*. The company’s lawyer draws up the prospectus, called a “Pathfinder” and is responsible for the due diligence process, verifying statements in the Pathfinder and in other documents. The Nomad and the Broker may also retain lawyers to assist them as well, normally only one additional lawyer per deal.

- *Financial PR Company.* The PR firm helps promote the company, drafts important documents including press releases, helps create analyst presentations, and advises in aftermarket investor relations strategy with the Broker to maintain momentum in the stock.
- *Adviser.* Some companies, especially non-UK issuers, retain an overall Adviser to assist to determine the viability of an AIM offering, seek competitive proposals from Nomads and Brokers, advise management and the Board with respect to timing, pricing and market acceptance, and help the company to realistically assess the cost and time to complete an offering. An Adviser is especially helpful for US management that might not be familiar with UK customs or in navigating through the London financial markets.

Considerations for US Companies Seeking a Listing on AIM

Not all companies are meant for AIM. Nor are all companies able to absorb the time, cost and management focus of seeking an AIM listing. Some issues that need to be considered include:

- The company should have business in Europe or an inclination to pursue European operations. In bringing US companies to European financial markets over the past 25 years I have been asked the following question on almost every road show. "...well Mr. McKenna, are you here in Europe because you can't get your deal done in the US?" There needs to be a good answer to this question.
- Pre-revenue companies are generally not welcome. But there have been some exceptions.
- Companies must understand that an AIM offering requires a long term commitment to European investor relations. Investors want to see senior management frequently. CEOs and CFOs must be prepared to commit the time to communicate with them.
- Board members need to include UK participation. Some US-centric business practices and customs (cheap stock option plans, accounting practices and corporate governance) need to generally conform to UK standards.
- If the issuer continues to be US incorporated, it cannot use the UK's electronic clearing system. Some companies incorporate a UK holding company for this reason.
- AIM offerings are covered under Regulation S of the US Securities Act of 1933, meaning that the securities offered on AIM cannot be sold to US residents. This can impact companies that are attempting to develop a retail investor market in the US.

Ready....AIM....Fire

The LSE has created AIM as an exciting market for early-stage growth companies. Energy tech companies have been very popular on AIM. Advisers can assist companies and their venture capital investors to determine if AIM is appropriate, and how an AIM transaction can be analyzed with a minimum commitment of time and expense.

Better to take aim before launching on AIM.

Technology Matters: Solving the Problem. A Macro View

Himesh Dhungel, PhD

We have to look at the big picture. Neither renewable energy nor opening ANWR will solve our energy challenges. But both will contribute to the solution.

Our problem is that we have an insatiable demand for imported oil and a growing reliance on natural gas and coal for electricity generation. Oil demand and a declining rate of new discoveries are putting upward pressure on prices and price volatility. At the same time we want to comply with Kyoto, even though we don't have to.

More energy for a growing worldwide economy, but the need to be better environmental stewards. Where is value likely to be created?

Supply Demand Imbalance

Global energy demand is forecast to grow by 50% between 2002 and 2025. In the US, energy consumption is expected to grow by 35% during this same period. This demand growth will put upward pressure on energy prices (especially sweet crude) if the amount of newly discovered oil and gas reserves continues to decline.

The US consumes approximately 20 million barrels of oil per day (bpd) of which approximately 12 million bpd (crude plus finished products) or 60% is imported. The transportation sector accounts for about 65% of oil consumption. Our domestic production has been on the decline for more than three decades.

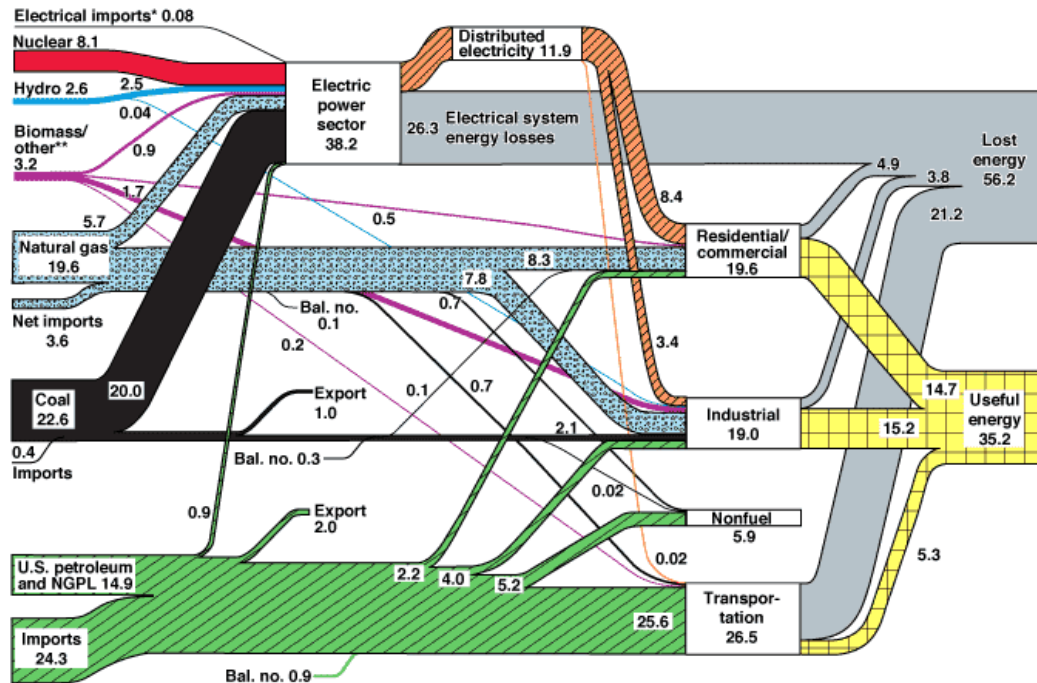
While US oil reserves have dwindled, global reserves are also declining. Some experts believe that peak oil production has already occurred or will occur in the near future. This, combined with the fact that resources are concentrated in geopolitically volatile regions of the world, will increase prices. Roughly two-thirds of worldwide demand comes from OECD countries, while roughly two-thirds of reserves are concentrated in Middle East countries. Not a good situation.

We believe that new energy technologies will bridge the gap between growing demand and slower reserve additions. Some technologies will help find and produce energy, while others will help reduce consumption through efficiency and demand management.

Sources and Uses

Energy available in raw form (primary energy) such as coal, oil, natural gas, nuclear, hydro, wind, and solar have to be transformed into liquid fuels, gaseous fuels and electricity for consumer use. The flow chart below summarizes our energy value chain and shows the inefficiencies in this transformation process, particularly with respect to electric power.

U.S. Energy Flow Trends – 2002 Net Primary Resource Consumption ~97 Quads



Source: Production and end-use data from Energy Information Administration, *Annual Energy Review 2002*.

*Net fossil-fuel electrical imports.

**Biomass/other includes wood, waste, alcohol, geothermal, solar, and wind.

June 2004
Lawrence Livermore
National Laboratory
<http://eed.llnl.gov/flow>

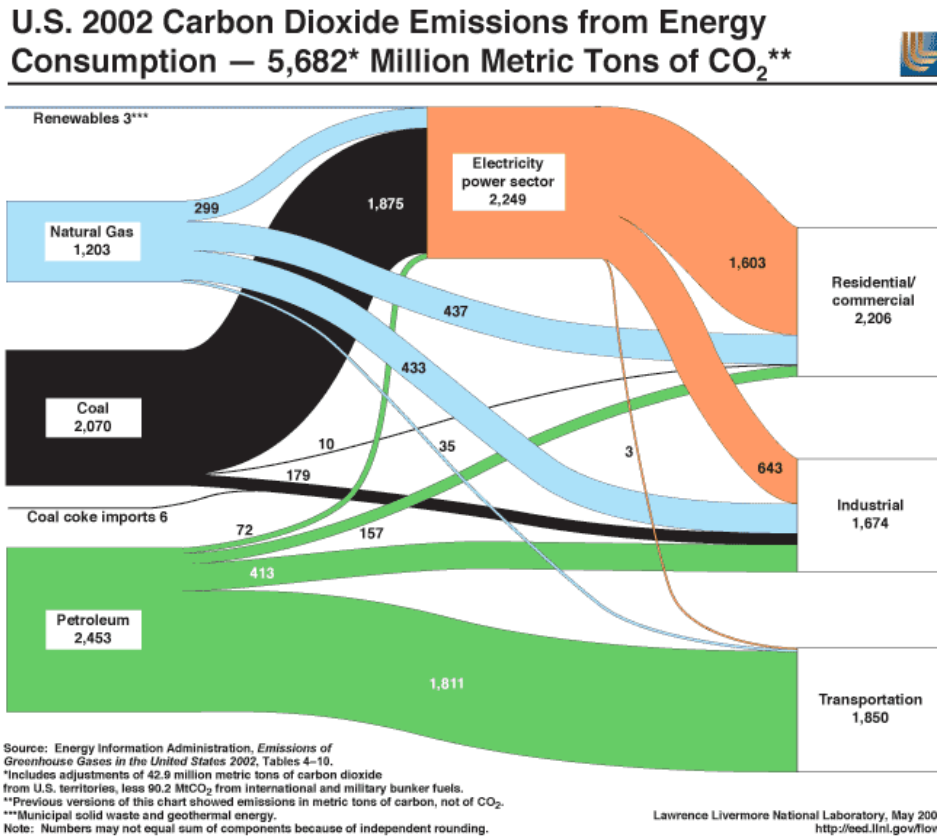
What does this mean?

- **Fossil fuel is still the king**
 - i. Coal, gas and oil supply about 90% of our energy needs
 - ii. Coal and natural gas account for about 67% of fuel used in power generation
 - iii. More than 50% of our total energy needs are met by oil, 23% by gas
- **The electric power sector is an energy hog**
 - i. 40% of primary energy supply is consumed in power generation
 - ii. The power sector is inefficient, only about 33% reaches the end user
 - iii. Only 17% of the consumer's final energy needs are met by electricity
 - iv. Industry consumes 30%, households and business consume 70%
- **Transportation is the largest energy consuming sector**
 - i. Transportation accounts for about 37% of all final energy consumption
 - ii. Almost 100% of this sector is dependent on oil
 - iii. 65% of oil used in our economy is consumed by transportation

Environmental Implications

Emissions of CO₂ and other pollutants will increase with rising energy consumption. The chart below tracks emissions of CO₂ from various fuels used in the US economy. Although coal accounts for only 23% of energy supply, it produces 36% of CO₂ emissions. On the other hand, due to its large share in the primary energy mix, oil accounts for about 40% of CO₂ emissions. Numerous technologies are available to reduce power plant as well as tail pipe

emissions. With the popularity of emissions trading, new technologies will begin to play an even more important role as power plants and fleet operators look for ways to monetize emissions reductions.



What Does This All Mean for Energy Technologies

There are a number ways to reduce our dependence on oil, increase overall energy efficiency and reduce pollution. We need to focus on two major areas where immediate action can be taken without government intervention—transportation and power generation.

Transportation. How to move away from oil and to a domestic energy resource for transportation?

- First, focus on technologies that reduce oil consumption in the near term
- Second, gradually move away from traditional oil-based transportation to domestic resource-based technologies
- Third, invest in new urban and transportation concepts that would allow greater use of public transportation.

Specifically, we believe that investment will track the following technologies:

1. **Hybrid Electric Vehicles.** The popularity of hybrid-electric passenger vehicles shows that technologies are available today that achieve the first objective, the introduction of efficient

transportation technologies. The success of hybrid technology can be attributed to the fact that hybrid vehicles rely on existing fuel and maintenance infrastructure, and they do not compromise convenience, comfort and reliability. We believe that the natural progression for hybrid technologies will be in commercial, military and urban transportation vehicles. Rapid adoption of hybrid technology is happening now as technology developers, vehicle assemblers and OEMs are meeting the payback requirements of vehicle fleet managers. Investment opportunities in hybrid technologies include efficient internal combustion engine technologies, compact electric motors/generators (permanent magnet motors), ultra capacitors, deep charge/discharge battery technologies, inverter and power management technologies, continuously/ininitely variable transmissions, high tech independent suspension systems and other ancillary components used in advanced vehicles.

2. **Alternative Fueled Vehicles.** Natural gas, ethanol blend, and hydrogen fueled IC engines that increase efficiency and reduce emissions.
3. **Electric and Fuel Cell Vehicles.** The logical step from hybrid technology is to move towards full electric vehicles (battery and fuel cell powered). This would allow near-complete dissociation from oil for consumer and commercial vehicle transportation. This transition requires a number of disruptive technologies. First, battery storage must improve to a level where one battery charge is equal to one fill-up. Second, battery charging infrastructure must be built and existing fuel stations modified. Third, fuel cells must become commercial. Fourth, in-wheel motors must be advanced and cost-effective. These technologies open up many investment opportunities.

The transportation sector offers significant opportunities for investors as military and commercial markets start to adopt advanced mobility systems. These systems require components and products from a variety of sub-industry segments including materials, polymers, IT and communications, inverters, gateway devices and traditional engineering. Investors who have never invested in advanced mobility systems will find that this sector is very compatible with other energy technology opportunities.

Power Generation. New electricity generation must come from domestic resources that are environmentally responsible. This will create interest in: (a) clean coal technologies; (b) pollution control technologies; (c) renewable energy; and (d) nuclear power technologies.

We See the Solution

Technology solutions in the energy sector are generally long term investments, particularly when it involves clean coal and nuclear power. But some supply chain investments are available. Nuclear power, for example offers opportunities in plasma ion separation which reduces the mass of nuclear waste, to storing spent nuclear fuel in deep Cambrian and pre-Cambrian repositories. Larger scale renewable technologies that we like include power generation from concentrated solar plants, offshore wind technologies, ocean power (wave, tidal and current technologies) and distributed solar generation with advanced storage systems.

No simple solution. But this is the energy industry where there are no simple solutions.

Authors' Certification

We, John J. McKenna and Himesh Dhungel, PhD certify that the views expressed in this report to the best of our knowledge, accurately reflect our personal views about the subject companies and their securities, and that we have not been, are not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendations or views in this report.

HamiltonClark beneficially owned less than 0.2% of the common stock of Azure Dynamics Corporation as of close of business March 4, 2005 and we received investment banking fees in representing Solectria Corporation in its acquisition by Azure Dynamics Corporation.

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