

FOR IMMEDIATE RELEASE

12 January 2009

**PROTONEX TECHNOLOGY CORPORATION**  
("Protonex" or "the Company")

**Preliminary Results For The Year Ended 30 September 2008 (Unaudited)**

**DATELINE: SOUTHBOROUGH, MA;** Protonex Technology Corporation (LSE: AIM: PTX and PTXU) ("Protonex" or the "Company"), a leading provider of advanced fuel cell power systems for sub-kilowatt portable, remote and mobile applications today announces its preliminary results for the fiscal year ended 30 September 2008.

**2008 HIGHLIGHTS**

Protonex Technology Corporation achieved significant milestones in the development of several key product areas in 2008, including its M250 professional and military product series, unmanned aerial vehicle (UAV) power systems and solid oxide fuel cell platforms. Progress towards bringing these portable fuel cell products to the market in 2009 and beyond has continued to attract industry-leading development partners and positions the Company to be an early leader in this sector.

- Revenues up 31% to \$7.9 million for the year ended 30 September 2008 (2007: \$6.0 million)
- The M250-B product is in the final stages of development and testing and is on track for initial consumer and professional sales in the first half of calendar year 2009
- Demonstrated fully functional Professional Series M250-B prototypes to leading OEMs interested in taking the concept to market under their brand
- Completion of \$3.5 million programme with the US Army with delivery of ten M250-CX fuel cell prototypes to several US military agencies for evaluation
- Awarded a \$4.0 million follow-on contract from the US Army to continue the development of a next-generation version of the M250-CX system
- Enabled a nine-hour flight of a fuel cell-powered UAV with industry leader AeroVironment, extending flight duration by as much as four times compared to advanced batteries
- Received a \$1.6 million contract from the US Navy for advanced development of high performance fuel cell systems for UAV
- Continued development of solid oxide fuel cell platforms and progress against milestones on joint development effort with Cummins
- Awarded a \$0.4 million contract from the US Army to further develop the Company's solid oxide fuel cell (SOFC) power systems
- Established PTXU trading line to enable CREST electronic trading for eligible unrestricted shares. 48% of outstanding shares in PTXU line as of 30 September 2008
- Strong financial position with \$24.3 million in cash and cash equivalents as of 30 September 2008

**POST PERIOD END HIGHLIGHTS**

- Formally introduced Professional Series M250-B product targeted at recreational vehicle hybrid power application at the RVIA trade show in Louisville, Kentucky on 2 December 2008

**Commenting on the results, Scott Pearson, Chief Executive of Protonex Technology Corporation said:** "2008 was an important year for Protonex as the Company experienced impressive growth and reached significant milestones on several key product platforms."

"The Company's continuing shift from technology development to product delivery was demonstrated in several ways in 2008 and the results of this transition included considerable progress towards mass-marketable products that are expected to offer exceptional value to their target markets. Our expectations remain high as we progress toward the introduction and delivery of our first commercial products in 2009."

**ENQUIRIES**

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## **Notes to Editors**

### **About Protonex Technology Corporation**

[www.protonex.com](http://www.protonex.com)

Protonex Technology Corporation develops and manufactures compact, lightweight and high- performance fuel cell systems for portable power applications in the 100 to 1000-watt range. The Company's fuel cell systems are designed to meet the needs of military, commercial, consumer and original equipment manufacturer (OEM) customers for off-grid applications underserved by existing technologies by providing customizable, stand-alone portable power solutions and systems that may be hybridized with existing power technologies. The Company is based in Southborough, Massachusetts.

*This document contains statements that are, or may be deemed to be, forward-looking statements, including, without limitation, statements containing the words "believes", "anticipates", "intends", "plans", "estimates", "aims," "expects", or, in each case, their negative or other variations or comparable terminology or by discussions of strategy plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include statements regarding the Company's intentions, beliefs or current expectations concerning, amongst other things, results of operations, financial condition, liquidity, prospects, growth, strategies and the industries in which the Company operates. Such forward-looking statements involve unknown risks, uncertainties and other factors which may cause the actual results, financial condition, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Factors that might cause such a difference include, but are not limited to those discussed in part ii, part iii, part iv and part vi of the Company's AIM Admission document dated 27 June 2006. A copy of this document is posted on the Company's website or may be obtained by contacting the Company at +1 508 490 9960. Given these uncertainties, investors are cautioned not to place undue reliance on such forward-looking statements. Subject to any legal and regulatory requirements, the Company disclaims any obligation to update any such forward-looking statements in this document to reflect future events or developments.*

## LETTER FROM CHAIRMAN AND FROM CHIEF EXECUTIVE

At the close of another successful year for Protonex, we are particularly pleased with the progress made by the Company in 2008. We agree with the widely held opinion that portable fuel cells will be the first type to reach a mass market, and we are well positioned as an early leader in this sector. With the considerable advances made in all product areas this year, along with the rising global emphasis on clean technologies, we expect to begin producing and selling our first commercial fuel cell power products in calendar year 2009.

### **Transition to Products**

Our continued shift from technology development to product delivery was manifested in several ways during 2008. The results of this transition included considerable progress towards mass-marketable products that offer exceptional value to their target markets.

As of 30 September 2008, Protonex was staffed by 95 employees. The majority of these are focused on transitioning our cutting-edge technologies to value-added products and streamlining manufacturing processes. While maintaining a strong pipeline of military product development, we continue to focus more resources on the non-military portions of our business with more than half of Protonex' technical resources currently engaged in non-military efforts. Interestingly, due to additional testing required by the military, we expect the Company's non-military products to reach markets first.

While there were many significant developments on the Company's major product platforms in 2008, the highlights for the year include:

- **250-watt Methanol Products:** Our 250-watt methanol-fuelled commercial product is in the final stages of development and testing and is on track for initial consumer sales in early calendar year 2009. On a parallel and synergistic track, we also continued the successful development of a robust military 250-watt methanol-fuelled system, funded by the US Army;
- **SOFC Platform:** We continued technical advancement and progress toward functional solid oxide fuel cell systems, and our development programme with Cummins is progressing according to plan. Our SOFC units are being designed for operation on propane, gasoline, diesel, and other available hydrocarbon fuels;
- **UAV/UGV Power Systems:** Protonex completed impressive operational demonstrations of its long duration power systems for unmanned aerial and ground vehicles in 2008. As a next step, the Company is actively seeking funded commercialisation programmes with leading military OEMs to develop and deploy the technology into fielded military systems; and
- **Power Managers:** Our emerging set of robust power manager products is currently being evaluated by several branches of the US military.

Looking ahead to our first commercial sales in 2009, we are actively shifting the primary focus of Protonex from developing technology platforms to selling commercial products and working on all dimensions to ensure a successful transition. Key to our success will be our ability to leverage common platforms into many related applications in order to enable volume production and keep manufacturing costs down.

## MARKET OPPORTUNITY

Much like batteries and generators, there is a broad set of applications that Protonex products can address. Portable power systems are unique in their capacity to cut across a broad range of applications and markets, and fuel cells provide many distinct advantages over incumbent power systems. Fuel cell products will be enabling in many applications by offering lighter weight, quieter operation, reduced vibration, decreased fuel consumption, fewer polluting emissions and lower maintenance requirements.

Many power users in our target markets will derive value from these and other benefits and will find fuel cells a very attractive powering option. We expect Protonex fuel cell systems to be particularly attractive since they will offer high-performance and a choice of fuel types.

In the longer term, Protonex fuel cell products will address a broad set of professional and consumer applications and will be widely distributed. Initially, however, Protonex-branded products will be sold directly into markets that are most likely to become early adopters for fuel cell power. These markets, including recreational vehicle power, marine auxiliary power and renewable auxiliary power, have been identified based on their distinct need for advanced power sources and the willingness of users to initially pay a premium for high-performance power.

After it has established sales traction into these commercially attractive areas, the Company intends to expand its reach into other markets using broader distribution models.

In parallel to offering Protonex-branded products, we will be pursuing partnerships with leading OEMs that are interested in taking Protonex products to market under their brands. We expect these OEMs to initially be focused in the telecommunications and cable TV network backup spaces. We have already begun to engage in ongoing discussions and demonstrations in these areas.

The US military continues to be very interested in, and supportive of, advanced fuel cell power solutions from Protonex. Our work with the US military continues to drive not only enhanced metrics for our power systems, but also additional fuel capabilities. The military has rigorous requirements for power duration, weight, vibration, noise emissions, and other metrics that we have continued to work towards and meet, pushing the performance of our systems to ever-higher limits. Similarly, the military requires that power systems run on specific logistical fuels, including renewable/alternative liquid fuels. Protonex is making great strides in adding fuelling capabilities that are compatible with these needs and enabling alternative/renewable energy solutions for its military customers.

There are several other macroeconomic drivers for the Company. The proliferation of mobile electronic equipment has increased the need for more advanced portable power solutions as incumbent power sources are underserving the needs of these existing applications. At the same time, it is becoming rapidly apparent that the continued lack of high-performance, environmentally friendly portable power is holding back the innovation and introduction of new portable electronic products and applications.

Additionally, global demand for clean technologies is on the rise, and consumers are calling for new power sources that meet their expectations for performance without adversely affecting their environment. This heightened and broadened consumer awareness is developing into widened market opportunities for fuel cells and other alternative energy sources. In all, we see strong market demand for the fuel cell power systems that Protonex will be producing.

## BUSINESS OPERATIONS

We are pleased to report that the Company continues to execute against its milestones and evolve as a substantial business. We have assembled a team of top-performing employees, a set of high-value products and technologies, and the infrastructure and processes needed to support our success. Operations are on-track in all areas, as outlined in these high-level functional updates:

- *Product Engineering:* We now have emerging products on several platforms that reflect the product engineering capabilities of the Company. Product engineering is currently the largest group within Protonex. Our engineers are constantly driving toward robust product designs using state-of-the-art computer-aided engineering tools, rapid prototyping equipment, and comprehensive testing and statistical analysis facilities;
- *Manufacturing:* Our low-volume/pilot manufacturing operation is currently in place and functional, and our overall supply chain and key vendors are in position. We are in the process of evaluating world-class contract manufacturers to step in when medium- to high-volume manufacturing occurs. Currently, we are focused heavily on producing quality products while developing a clear path to reducing costs over time;
- *Sales and Marketing:* We are aggressively focusing on developing the business on three main fronts: 1) consumer and professional power users, which we will initially target via direct sales, 2) military and government users, which we will reach via direct sales and military prime contractors, and 3) OEM accounts, which will enable indirect sales to end users. With the anticipated introduction of our initial products to target markets in calendar year 2009, the Company will be expanding its sales and marketing capabilities;

- *Advanced Technology:* While many of the Company's resources are focused on developing products, a portion remains focused on developing advanced technologies and getting them to the point where they are proven and ready to transition into the next wave of the Company's products. The most notable of these is the SOFC technology which was acquired (as Mesoscopic Devices) in 2007. SOFC continues to progress well and is particularly important because it enables the use of several commonly available consumer fuels, including propane, gasoline, diesel, ethanol, and other biofuels;
- *Intellectual Property:* The Company continues to take an aggressive stance on filing and protecting its key inventions and intellectual property. Our internal resources in this area are supported by several world-class external legal firms. As of 30 September 2008, the Company had eleven patents issued or allowed and 54 patents pending; and
- *Partners:* In addition to Parker Hannifin, Cummins, Raytheon, CBC, and Northrop Grumman, we are pleased to add TOTO as a corporate partner. TOTO is a world leader in ceramic products and technology and is collaborating with Protonex on its solid oxide fuel cell system development. As the Company grows, we expect to enter into relationships with additional partners in 2009 and beyond.

## **FINANCIAL REVIEW**

Revenues for the fiscal year ended 30 September 2008 totalled \$7.9 million, an increase of 31% over the comparative period in 2007. \$7.7 million of the revenue during the period was associated with US government sponsored development contracts. In comparison, revenues during the fiscal year ended 30 September 2007 were \$6.0 million, of which \$5.5 million were revenues from US Government sponsored development contracts.

As the Company continues to grow and invest in its future business, operating expenses have increased 15% to \$19.2 million for the year ended 30 September 2008 (2007: \$16.7 million). The increase in operating expenses was planned and was primarily the result of the acquisition of Mesoscopic Devices in April 2007, the significant expansion in the size of the technical and manufacturing operations, increased spending on product development and marketing programmes, and higher stock-based compensation costs. The 30 September 2007 operating expenses included \$1.9 million of in-process research and development ("IPR&D") costs associated with the acquisition of Mesoscopic Devices. There were no IPR&D expenses in the year ended 30 September 2008. Although the Company will incur ongoing research and development expenses, it does not anticipate incurring additional costs for IPR&D unless another business acquisition is completed.

Interest income for the year ended 30 September 2008 decreased to \$0.8 million (2007: \$1.3 million). This decrease was primarily the result of lower cash balances and lower interest rates due to lower short-term market rates and a decision by the Company to shift its short-term investments to a US Treasury money market fund in December 2007. The net loss for the fiscal year ended 30 September 2008 was \$10.9 million (2007: \$9.4 million).

The Company's balance sheet remains strong with \$24.3 million in cash and cash equivalents at 30 September 2008. The net cash used in operating activities during the year ended 30 September 2008 was \$8.9 million (2007: \$6.5 million). Cash outflows attributable to capital expenditures totalled \$0.7 million during the year ended 30 September 2008 (2007: \$1.5 million). Cash outflows attributable to cash paid for the acquisition of Mesoscopic Devices and cash held in escrow totalled \$3.4 million during the year ended 30 September 2007. In the year ended 30 September 2007 there were also cash inflows of \$26.5 million from the net proceeds, after issuance costs, from the Company's April 2007 secondary equity financing on AIM. The overall net cash outflows for the year ended 30 September 2008 of \$9.6 million compared with \$15.2 million of net cash inflows for the year ended 30 September 2007.

## **OUTLOOK**

2009 will be a pivotal year for the Company as initial products are introduced and targeted to be sold into professional, consumer, military, and OEM markets. As we move ahead, the Company will continue to focus on developing and launching products that offer unique value in their specific applications and choosing market leaders as our OEM partners.

Our near term milestones include:

- Receiving required CE certification to enable initial unit sales of the M250-B product into targeted professional and consumer applications in the first half of calendar 2009. Sales are expected to ramp up one to three quarters from first unit sales;
- Continued evaluations of the M250 platform by leading OEMs with the potential for initial shipments in mid to late calendar year 2009;
- Protonex military products to receive the required military certifications and be positioned for low to mid volume orders in mid to late calendar year 2009;
- Government contract revenues in fiscal year 2009 expected to remain at levels similar to 2008 as the Company is being more selective on contract topics and continues to focus aggressively on non-military products. The Company expects that future US military funding may tighten under the new Administration and due to delays associated with the 2009 federal budget;
- Continued technical progress on solid oxide fuel cell (SOFC) systems to enable initial product sales in early calendar year 2010 and beyond; and
- Scaling internal and external manufacturing capabilities to support projected product volumes.

We look forward to reporting on our results and continued progress throughout 2009. Our expectations remain high as we progress toward delivery of our first products into the portable fuel cell market in the coming months.

### **Harry Fitzgibbons**

Chairman  
12 January 2009

### **Scott A. Pearson**

Chief Executive Officer  
12 January 2009

# Current Public Information

**Exact Name of issuer as specified in its charter:**

Protonex Technology Corporation.

**State/country of incorporation:**

State of Delaware, United States of America.

**Address of principal executive offices:**

153 Northboro Road, Southborough, MA, USA 01772.

**Title and class of securities:**

Common Stock \$0.005 per share par value.

**Number of shares outstanding as of 29 December 2008:**

64,895,894

**Transfer agent:**

Computershare Investor Services (Channel Islands) Limited, Ordnance House, 31 Pier Road, St Helier, Jersey, JE4 8PW, Channel Islands.

**Nature of business:**

Protonex is a leading provider of advanced fuel cell power solutions for sub-kilowatt portable, remote and mobile applications. Based on patented proton exchange membrane (PEM) and solid oxide (SOFC) fuel cell design and manufacturing technology, these power systems are among the industry's smallest, lightest and highest performing fuel cell systems for portable power applications.

Protonex was incorporated and privately funded by four founders in 2000 to develop a proprietary PEM stack design and manufacturing process. From its inception until October 2003, Protonex was primarily funded by its founders and several key managers of the Company, in addition to commercial and government contracts. Protonex has funded its subsequent growth through two rounds of venture capital financings and two placings on the AIM market of the London Stock Exchange (July 2006 and April 2007). Since the first venture capital financing, the Company has expanded its business focus from providing just fuel cell stacks to complete fuel cell power systems.

In April 2007, Protonex acquired Mesoscopic Devices, a leading SOFC technology, fuel reforming and desulfurisation systems company. The Company is building on the technical and market synergies that exist between the two businesses to strengthen its position as a leading provider in the portable fuel cell industry. Headquartered near Boston, Massachusetts, with a development facility near Denver, Colorado, Protonex had approximately 98 employees as of 30 November 2008.

Protonex is well positioned to deliver high-performance, low-cost fuel cell products to military and commercial customers. With a wide range of technical expertise and an expanding intellectual property portfolio that covers PEM, SOFC and fuel reforming technology, the Company is also able to offer a variety of fuelling options, including hydrogen, chemical hydride, methanol, propane, gasoline, diesel, and other higher hydrocarbons and renewable fuels.

**Nature of products and services offered:**

Protonex targets both military and commercial markets. The military opportunity includes high energy-density power sources which enable digitisation of the battlefield, providing potential power solutions to electronic devices such as radios, communication systems, night vision equipment, global positioning systems, laser range finders and target designators, digital communication systems, intelligence gathering sensors, and small unmanned vehicles. Non-military, commercial and consumer opportunities include: portable generators for off-grid and emergency power; power sources and battery chargers for portable electronic equipment; auxiliary power units for applications such as boats, RVs, and vehicles; backup systems for electronic equipment and communication networks; and propulsion power for wheelchairs and electric motorbikes.

Protonex is currently developing three product lines for end-user customers: Military Series products for military customers, Professional Series products for professional and consumer customers, and Commercial Series backup power products for telecommunications and network providers. These products offer customers the benefits of fuel cell technology, including reduced noise, lower emissions, and extended runtimes at reduced size and weight, without requiring access to hydrogen or other specialty fuel sources.

While any of Protonex' power solutions can run on direct hydrogen, military and professional products contain fuelling subsystems that allow the systems to run on common organic fuels, such as methanol, propane and diesel. Because fuel cells process fuels electrochemically rather than burning them, running fuel cell systems on carbon-based fuels still retains the environmental benefits associated with fuel cells and other alternative power sources.

Protonex is also developing a series of customisable fuel cell power products for OEM customers in industrial and commercial markets. These products include the core power generation system of Protonex' packaged end-user solutions, and may be integrated by OEMs with existing technologies and products.

**Nature and extent of facilities:**

Protonex currently has two facilities that house its operations. The first facility, which functions as its principal offices and headquarters, is in Southborough, Massachusetts. This 31,294 square foot facility is leased and houses all of the major functions of the Company including general management, research and development, product engineering, manufacturing, sales, marketing, and customer service. The majority of the footprint of this facility is dedicated to product engineering and manufacturing.

The second facility is located in Broomfield, Colorado, just outside of Denver. This 11,970 square foot facility is also leased and dedicated to the Company's SOFC technology development and the infrastructure components required to support these development efforts.

While Protonex plans to conduct pilot and low-volume manufacturing of its products at its Southborough facility, it intends to outsource any medium to high-volume manufacturing to qualified contract manufacturing firms. This will allow the Company to avoid the capital expense of building out complete factories and to take advantage of the expertise possessed by these world-class manufacturing partners.

PROTONEX TECHNOLOGY CORPORATION (A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	30 September	
	2008	2007
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$24,303,508	\$33,874,522
Accounts receivable, net of allowance for doubtful accounts of \$27,355 and \$5,000 at 30 September 2008 and 2007, respectively	1,503,233	1,298,163
Inventory, net	409,553	262,815
Prepaid expenses and other current assets	320,876	440,809
<b>Total current assets</b>	<b>26,537,170</b>	<b>35,876,309</b>
Property and equipment, net of accumulated depreciation and amortisation of \$873,215 and \$427,923 at 30 September 2008 and 2007, respectively	1,762,237	1,636,842
Goodwill	7,816,990	7,316,990
Intangible assets, net of accumulated amortisation of \$164,300 and \$56,333 at 30 September 2008 and 2007, respectively	494,700	619,667
Other assets	52,880	553,754
<b>Total assets</b>	<b>\$36,663,977</b>	<b>\$46,003,562</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable (includes related party payables of \$36,959 and \$45,063 at 30 September 2008 and 2007, respectively)	\$650,144	\$814,082
Accrued expenses	1,012,616	772,474
Deferred revenue	108,150	23,253
<b>Total current liabilities</b>	<b>1,770,910</b>	<b>1,609,809</b>
Deferred tax liability	296,070	96,809
<b>Total liabilities</b>	<b>2,066,980</b>	<b>1,706,618</b>
<b>Commitments and contingencies</b>		
Stockholders' equity:		
Common stock, \$0.005 par value; 85,000,000 shares authorised; 63,868,366 and 63,786,248 shares issued and outstanding	319,342	318,932
Additional paid-in capital	64,929,209	63,766,945
Deficit accumulated during the development stage	(30,651,554)	(19,788,933)
<b>Total stockholders' equity</b>	<b>34,596,997</b>	<b>44,296,944</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$36,663,977</b>	<b>\$46,003,562</b>

See the accompanying notes to the preliminary announcement.

PROTONEX TECHNOLOGY CORPORATION (A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Years ended 30 September		Period from 6 October 2000 (inception) to 30 September 2008
	2008	2007	
<b>Revenues:</b>			
Third-party revenues	\$ 7,845,254	\$5,990,244	\$18,928,476
Related-party revenues	6,200	—	313,200
<b>Total revenues</b>	<b>7,851,454</b>	<b>5,990,244</b>	<b>19,241,676</b>
<b>Operating expenses:</b>			
Research and development	13,858,515	10,503,203	33,997,746
In-process research and development	—	1,852,000	1,852,000
Sales and marketing	1,026,968	829,481	3,164,363
General and administrative	4,326,895	3,554,662	13,305,768
<b>Total operating expenses</b>	<b>19,212,378</b>	<b>16,739,346</b>	<b>52,319,877</b>
<b>Loss from operations</b>	<b>(11,360,924)</b>	<b>(10,749,102)</b>	<b>(33,078,201)</b>
<b>Other income (expense):</b>			
Interest income	757,709	1,325,416	2,745,715
Interest expense	—	—	(43,897)
Miscellaneous income (loss)	(59,689)	72,833	24,557
<b>Total other income, net</b>	<b>698,020</b>	<b>1,398,249</b>	<b>2,726,375</b>
<b>Loss before provision for income taxes</b>	<b>(10,662,904)</b>	<b>(9,350,853)</b>	<b>(30,351,826)</b>
<b>Provision for income taxes</b>	<b>(199,717)</b>	<b>(97,275)</b>	<b>(299,728)</b>
<b>Net loss</b>	<b>\$ (10,862,621)</b>	<b>\$(9,448,128)</b>	<b>\$(30,651,554)</b>
<b>Basic and diluted net loss per common share</b>	<b>\$ (0.17)</b>	<b>\$ (0.18)</b>	
<b>Weighted average common shares outstanding:</b>			
Basic and diluted	63,510,323	52,747,104	

See the accompanying notes to the preliminary announcement.

PROTONEX TECHNOLOGY CORPORATION (A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)  
PERIOD FROM 6 OCTOBER 2000 (INCEPTION) TO 30 SEPTEMBER 2008 (UNAUDITED)

	Series B Convertible Preferred Stock		Series C Convertible Preferred Stock		Series A Convertible Preferred Stock		Common Stock		Restricted Common Stock		Additional Paid-in Capital	Treasury Stock		Deficit Accumulated During the Development Stage	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Par Value	Shares	Amount		Shares	Cost		
Balance, 6 October 2000	—	\$—	—	\$—	—	\$—	—	\$—	—	\$—	\$—	—	\$—	—	\$—
Common stock issued to founders	—	—	—	—	—	—	1,717,368	8,587	—	—	958	—	—	—	9,545
Restricted stock issued to founders	—	—	—	—	—	—	—	—	2,468,048	12,340	21,027	—	—	—	33,367
Treasury Stock Purchase	—	—	—	—	—	—	—	—	—	—	—	128,530	(643)	—	(643)
Stock issued for Series A Convertible Preferred Stock, net of expenses	—	—	—	—	80,000	169,200	—	—	—	—	—	—	—	—	169,200
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(528,470)	(528,470)
Balance, 30 September 2002	—	—	—	—	80,000	169,200	1,717,368	8,587	2,468,048	12,340	21,985	128,530	(643)	(528,470)	(317,001)
Conversion of restricted shares to common stock	—	—	—	—	—	—	195,230	976	(195,230)	(976)	—	—	—	—	—
Treasury stock purchased	—	—	—	—	—	—	—	—	—	—	—	430,376	(2,152)	—	(2,152)
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(480,395)	(480,395)
Balance, 30 September 2003	—	—	—	—	80,000	169,200	1,912,598	9,563	2,272,818	11,364	21,985	558,906	(2,795)	(1,008,865)	(799,548)
Stock issued for Series B Convertible Preferred Stock, net of expenses	3,333,334	3,437,341	—	—	—	—	—	—	—	—	—	—	—	—	3,437,341
Conversion of debt and interest expense into Series B Convertible Preferred Stock	369,780	388,269	—	—	—	—	—	—	—	—	—	—	—	—	388,269
Restricted stock issued in connection with Series B Convertible Preferred Stock	—	—	—	—	—	—	—	—	462,000	2,310	32,340	—	—	—	34,650
Common stock issued	—	—	—	—	—	—	170,000	850	—	—	11,900	—	—	—	12,750
Treasury stock retired	—	—	—	—	—	—	—	—	(558,906)	(2,795)	—	(558,906)	2,795	—	—
Conversion of restricted shares to common stock	—	—	—	—	—	—	760,246	3,801	(760,246)	(3,801)	—	—	—	—	—
Restricted stock issued	—	—	—	—	—	—	—	—	780,176	3,901	—	—	—	—	3,901
Stock-based compensation	—	—	—	—	—	—	—	—	—	—	1,138	—	—	—	1,138
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(1,923,796)	(1,923,796)
Balance, 30 September 2004	3,703,114	3,825,610	—	—	80,000	169,200	2,842,844	14,214	2,195,842	10,979	67,363	—	—	(2,932,661)	1,154,705

See the accompanying notes to the preliminary announcement.

PROTONEX TECHNOLOGY CORPORATION (A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)  
PERIOD FROM 6 OCTOBER 2000 (INCEPTION) TO 30 SEPTEMBER 2008 (UNAUDITED) (CONTINUED)

	Series B Convertible Preferred Stock		Series C Convertible Preferred Stock		Series A Convertible Preferred Stock		Common Stock		Restricted Common Stock		Additional Paid-in Capital	Treasury Stock		Deficit Accumulated During the Development Stage	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Par Value	Shares	Amount		Shares	Cost		
Stock issued for Series C Convertible Preferred Stock, net of issuance costs of \$72,163	—	—	8,800,000	10,927,837	—	—	—	—	—	—	—	—	—	—	10,927,837
Stock options exercised	—	—	—	—	—	—	380,952	1,905	—	—	26,667	—	—	—	28,572
Common stock issued for services	—	—	—	—	—	—	40,952	205	—	—	2,867	—	—	—	3,072
Treasury stock purchased	—	—	—	—	—	—	—	—	—	—	—	163,130	(816)	—	(816)
Treasury stock retired	—	—	—	—	—	—	—	—	(163,130)	(816)	—	(163,130)	816	—	—
Restricted stock issued	—	—	—	—	—	—	—	—	2,202,660	11,014	—	—	—	—	11,014
Conversion of restricted shares to common stock	—	—	—	—	—	—	1,032,774	5,163	(1,032,774)	(5,163)	—	—	—	—	—
Stock-based compensation	—	—	—	—	—	—	—	—	—	—	36,634	—	—	—	36,634
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(2,223,370)	(2,223,370)
Balance, 30 September 2005	3,703,114	3,825,610	8,800,000	10,927,837	80,000	169,200	4,297,522	21,487	3,202,598	16,014	133,531	—	—	(5,156,031)	9,937,648
Stock options exercised	—	—	—	—	—	—	218,126	1,091	—	—	19,221	—	—	—	20,312
Conversion of restricted shares to common stock	—	—	—	—	—	—	1,863,073	9,316	(1,863,073)	(9,316)	—	—	—	—	—
Conversion of Series B, C and A Convertible Preferred Stock into common stock	(3,703,114)	(3,825,610)	(8,800,000)	(10,927,837)	(80,000)	(169,200)	25,276,704	126,383	—	—	14,796,264	—	—	—	—
Issuance of common stock, net of issuance costs of \$2,556,734	—	—	—	—	—	—	10,350,000	51,750	—	—	13,598,074	—	—	—	13,649,824
Stock-based compensation	—	—	—	—	—	—	—	—	—	—	757,787	—	—	—	757,787
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(5,184,774)	(5,184,774)
Balance, 30 September 2006	—	—	—	—	—	—	42,005,425	210,027	1,339,525	6,698	29,304,877	—	—	(10,340,805)	19,180,797
Stock options exercised	—	—	—	—	—	—	358,913	1,795	—	—	32,039	—	—	—	33,834
Conversion of restricted shares to common stock	—	—	—	—	—	—	809,667	4,048	(809,667)	(4,048)	—	—	—	—	—
Issuance of common stock, net of issuance costs of \$1,204,376	—	—	—	—	—	—	16,000,000	80,000	—	—	26,437,375	—	—	—	26,517,375
Issuance of common stock in connection with Mesoscopic Devices, LLC acquisition	—	—	—	—	—	—	4,082,385	20,412	—	—	7,401,571	—	—	—	7,421,983
Stock-based compensation	—	—	—	—	—	—	—	—	—	—	591,083	—	—	—	591,083
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(9,448,128)	(9,448,128)
Balance, 30 September 2007	—	—	—	—	—	—	63,256,390	316,282	529,858	2,650	63,766,945	—	—	(19,788,933)	44,296,944
Stock options exercised	—	—	—	—	—	—	82,118	410	—	—	7,929	—	—	—	8,339
Conversion of restricted shares to common stock	—	—	—	—	—	—	333,764	1,669	(333,764)	(1,669)	—	—	—	—	—
Share-based compensation	—	—	—	—	—	—	—	—	—	—	1,154,335	—	—	—	1,154,335
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(10,862,621)	(10,862,621)
Balance, 30 September 2008	—	\$ —	—	\$ —	—	\$ —	63,672,272	\$318,361	196,094	\$981	\$ 64,929,209	—	\$ —	\$(30,651,554)	\$ 34,596,997

See the accompanying notes to the preliminary announcement.

PROTONEX TECHNOLOGY CORPORATION (A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Years ended 30 September		Period from
	2008	2007	6 October 2000 (inception) to 30 September 2008
<b>Cash flows from operating activities:</b>			
Net loss	\$ (10,862,621)	\$(9,448,128)	\$ (30,651,554)
Reconciliation of net loss to net cash used in operating activities:			
In-process research and development	—	1,852,000	1,852,000
Depreciation of property and equipment	479,731	278,028	940,149
Amortisation of intangible assets	111,300	56,333	167,633
Non-cash expense for services	—	—	4,080
Loss on disposal of fixed assets	46,023	34,594	81,921
Loss on impairment of intangible assets	13,667	—	13,667
Non-cash interest expense	—	—	38,269
Deferred tax provision	199,261	96,809	296,070
Stock-based compensation	1,154,335	591,083	2,540,980
Changes in assets and liabilities, net of acquisitions:			
Accounts receivable, net	(197,929)	(197,090)	(756,656)
Inventory, net	(146,738)	(145,731)	(397,332)
Prepaid expenses and other current assets	119,933	(126,649)	(283,116)
Other assets	874	(17,557)	(45,325)
Accounts payable	(171,079)	286,446	455,136
Accrued expenses	240,141	336,239	824,961
Deferred revenue	84,897	(87,737)	108,150
<b>Net cash used in operating activities</b>	<b>(8,928,205)</b>	<b>(6,491,360)</b>	<b>(24,810,967)</b>
<b>Cash flows from investing activities:</b>			
Cash paid for acquisition of Mesoscopic, net of cash acquired	(477,645)	(2,922,301)	(3,399,946)
Cash held in escrow	477,645	(500,000)	(22,355)
Additions to property and equipment	(651,148)	(1,470,232)	(2,706,464)
<b>Net cash used in investing activities</b>	<b>(651,148)</b>	<b>(4,892,533)</b>	<b>(6,128,765)</b>

See the accompanying notes to the preliminary announcement.

PROTONEX TECHNOLOGY CORPORATION (A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (CONTINUED)

	Years ended 30 September		Period from 6 October 2000 (inception) to 30 September 2008
	2008	2007	
<b>Cash flows from financing activities:</b>			
Proceeds from notes	—	—	350,000
Proceeds from Series B Convertible Preferred Stock, net of issuance costs	—	—	3,437,341
Proceeds from Series C Convertible Preferred Stock, net of issuance costs	—	—	10,927,837
Proceeds from Series A Convertible Preferred Stock, net of issuance costs	—	—	169,200
Proceeds from sale of common stock and stock option exercises	8,339	33,834	195,274
Proceeds from Initial Public Offering on AIM, net of issuance costs	—	—	13,649,823
Proceeds from Secondary Public Offering on AIM, net of issuance costs	—	26,517,375	26,517,375
Common stock repurchased	—	—	(3,610)
<b>Net cash provided by financing activities</b>	<b>8,339</b>	<b>26,551,209</b>	<b>55,243,240</b>
Net increase/(decrease) in cash and cash equivalents	(9,571,014)	15,167,316	24,303,508
Cash and cash equivalents, beginning of period	33,874,522	18,707,206	—
<b>Cash and cash equivalents, end of period</b>	<b>\$24,303,508</b>	<b>\$33,874,522</b>	<b>\$24,303,508</b>
<b>Supplemental cash flow information:</b>			
Cash paid for:			
Interest	\$—	\$—	\$5,628
Income taxes	\$456	\$466	\$3,658
<b>Supplemental disclosure of non-cash financing transactions:</b>			
Conversion of accrued expense into shares of common stock	\$—	\$—	\$3,072
Conversion of debt and interest into Series B Convertible Preferred Stock	\$—	\$—	\$388,269
Conversion of Convertible Preferred Stock upon reorganisation and admission to AIM	\$—	\$—	\$14,922,647
<b>Supplemental disclosure of acquisition:</b>			
On 1 April 2007, Protonex acquired Mesoscopic Devices, LLC			
Accounts receivable	\$ (29,496)	\$739,436	\$709,940
Inventories	—	12,221	12,221
Property, plant and equipment	—	77,844	77,844
Other assets	—	45,315	45,315
Intangible assets	—	2,528,000	2,528,000
Goodwill	500,000	7,316,990	7,816,990
Accounts payable and accrued expenses	7,141	(375,522)	(368,381)
Cash paid for Mesoscopic Devices LLC, including cash released from escrow and net of cash acquired	(477,645)	(2,922,301)	(3,399,946)
<b>Fair value of common stock issued</b>	<b>\$—</b>	<b>\$7,421,983</b>	<b>\$7,421,983</b>

See the accompanying notes to the preliminary announcement.

## NOTES TO THE PRELIMINARY ANNOUNCEMENT

### **NOTE 1 – ORGANISATION AND BASIS OF PRESENTATION**

#### **Organisation**

Protonex Technology Corporation (the “Company”) was incorporated in October 2000, and performs engineering and development on fuel cell technology under cost sharing, cost-reimbursement (cost-type), fixed price and cost plus contracts. In addition, the Company assembles and sells prototype products on a limited basis. Since inception, in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 7, “Accounting and Reporting by Development Stage Enterprises”, the Company has been considered to be in the development stage as it has devoted substantially all of its efforts to developing its products, raising capital and recruiting personnel. Although the Company is progressing toward the launching of its first consumer and military product offerings, as of 30 September 2008 the development of its product offerings had not reached this stage. The Company expects to incur losses as it continues to participate in government cost share programmes to further certain technology or product development initiatives with key customers or agencies and invests in cost reduction and commercialisation initiatives. The Company’s primary market during the development stage has been government agencies of the United States of America. The Company is headquartered in Southborough, Massachusetts.

Effective 1 April 2007, the Company acquired all of the shares of Mesoscopic Devices, LLC (“Mesoscopic”). Mesoscopic is a Colorado-based fuel cell technology company and provider of portable power fuel cell solutions. Since inception, in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 7, “Accounting and Reporting by Development Stage Enterprises”, Mesoscopic has been considered to be in the development stage as it has devoted substantially all of its efforts to developing its products, raising capital and recruiting personnel. Mesoscopic’s results of operations have been included in the Company’s consolidated financial statements beginning 1 April 2007. Effective 4 April 2007, Mesoscopic’s name was changed to Protonex Technology, LLC.

#### **Basis of Presentation**

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles as set forth by the United States of America Financial Accounting Standards Board (“US GAAP”).

The Company is subject to a number of risks similar to those of other development stage companies, including risks related to: its dependence on key individuals and its ability to develop and market commercially usable products and its ability to obtain the substantial additional financing necessary to adequately fund the development, commercialisation and marketing of its products.

These Consolidated Financial Statements have also been prepared on a going concern basis. As such, they anticipate the realisation of assets and the liquidation of liabilities in the normal course of business. The Company incurred net losses of \$10,862,621 and \$9,448,128 for the years ended 30 September 2008 and 2007, respectively, and had an accumulated deficit of \$30,651,554 as of 30 September 2008. The Company has funded these losses principally through equity financings. In April 2007, the Company received \$26,517,375 in net proceeds from the sale of common stock. Management believes that existing resources will be adequate to fund operations for at least the next twelve months.

### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A summary of the accounting policies consistently applied in the financial statements follows:

#### **Use of Estimates**

The preparation of financial statements in conformity with US GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company bases its estimates and judgments on historical experience and on various other factors that are considered reasonable under the circumstances. Actual results could differ materially from these estimates.

#### **Basis of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All material intercompany transactions and balances have been eliminated in consolidation.

#### **Fair Value of Financial Instruments**

Carrying amounts of the Company’s financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate their fair values due to the short-term nature of these instruments.

#### **Cash and Cash Equivalents**

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Similarly, all money market accounts are considered cash equivalents.

The Company maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits, and in high quality, short-term, highly liquid investment securities. The Company has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash.

### **Accounts Receivable**

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Company reviews accounts receivable on a monthly basis to determine if any receivables will potentially be uncollectible. Management provides for probable uncollectible amounts through a charge to operations and a credit to a valuation allowance based on its assessment. Based on experience, the Company does not record a reserve against the receivables from the agencies/groups of the United States Government. As of 30 September, 2008 and 2007, 64 percent and 96 percent, respectively, of accounts receivable were from government agencies.

### **Inventories and Related Allowance for Obsolete and Excess Inventory**

Inventories consist primarily of raw materials and are recorded at the lower of cost or net realisable value. Cost is determined on a first-in, first-out basis. Reserves are recorded for slow moving, obsolete, non-sellable or unusable items and amounted to \$320,497 and \$219,809 at 30 September 2008 and 2007, respectively.

### **Property and Equipment**

Property and equipment are recorded at cost and are depreciated using the straight-line method over their expected useful lives. Construction in progress represents fixed assets not yet placed in service, that at completion are transferred to the appropriate fixed asset category and depreciated on a straight-line basis over estimated useful lives of three – five years or remaining lease terms.

The current useful lives are:

Furniture, fixtures and equipment	five years
Computer hardware and software	three – five years
Leasehold improvements	remaining lease term

### **Goodwill**

The Company reviews the valuation of goodwill in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). Under the provisions of SFAS 142, goodwill is required to be tested for impairment annually, in lieu of being amortised, using a fair value approach at the reporting unit level. Furthermore, goodwill is required to be tested for impairment on an interim basis if an event or circumstance indicates that it is more likely than not an impairment loss has been incurred. In accordance with SFAS 142, goodwill will be tested for impairment on an annual basis as of 1 April, and between annual tests if indicators of potential impairment exist. An impairment loss shall be recognised to the extent that the carrying amount of goodwill exceeds its implied fair value. Impairment losses shall be recognised in operations. The Company operates in one reporting unit. The Company's valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and projections of future operating performance. If these assumptions differ materially from future results, the Company may record impairment charges in the future. As of 30 September 2008, the Company determined that no impairment exists.

### **Impairment of Long-Lived Tangible and Intangible Assets**

The Company examines, in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), on a periodic basis the carrying value of our long-lived tangible and intangible assets to determine whether there are any impairment losses. If indicators of impairment were present with respect to long-lived tangible and intangible assets used in operations and undiscounted future cash flows were not expected to be sufficient to recover the assets' carrying amount, an impairment loss would be charged to expense in the period the impairment is identified based on the fair value of the asset less any costs of disposal.

### **Revenue Recognition and Deferred Revenues**

Revenues from cost sharing, cost-reimbursement (cost-type), fixed price and cost plus contracts with various government groups and agencies are recognised when the related costs are incurred and related services are performed. Contract costs primarily include direct labour, consultants, sub-contractors, research and development materials, and other specific administrative costs related to the project. Deferred revenue represents amounts received in advance of services being performed or delivery of products.

Revenue from sales of prototype units is recognised upon the shipment of the units to the customer provided evidence of an arrangement exists, the fee is fixed and determinable and collectibility of the related receivable is probable.

Revenues from research and development contracts are recognised proportionally as costs are incurred and compared to the estimated total research and development costs for each contract. In many cases, the Company is reimbursed only a portion of the costs incurred or to be incurred on the contract. Revenues from government funded research, development and demonstration programmes are generally multi-year, cost reimbursement and/or cost shared type contracts or cooperative agreements. The Company is reimbursed for reasonable and allocable costs up to the reimbursement limits set by the contract agreements.

For the fiscal years ended 30 September 2008 and 2007, the Company had government sponsored contract revenues of \$7,676,939 and \$5,503,704 which represented approximately 98 percent and 92 percent, respectively, of total revenues.

### Income Taxes

Deferred income taxes have been recorded to recognise the estimated future tax consequences attributable to the cumulative temporary differences between financial statement and tax bases of assets and liabilities.

Deferred income tax assets and liabilities are computed for those differences that have a future tax consequence using currently enacted laws and rates that apply to periods in which they are expected to affect taxable income. Income tax expense is the current tax payable or refundable for the period plus or minus the net change in deferred tax asset and liability accounts. Valuation allowances are established, if necessary, to reduce a net deferred tax asset to the amount that will more likely than not be realised.

### Research and Development Expense

Costs incurred in connection with research and development activities are expensed as incurred. These costs consist of direct and indirect costs associated with specific projects as well as fees paid to various third-party entities that perform certain research on behalf of the Company. Total research and development expenses for the years ended 30 September 2008 and 2007 were \$13,858,515 and \$10,503,203, respectively. Additionally, in the year ended 30 September 2007 the Company recorded in-process research and development expense of \$1,852,000.

### Stock-Based Compensation

The Company has one stock-based employee compensation plan. On 1 October 2005, the Company adopted the fair value recognition provisions of SFAS No. 123R, "Share-Based Payment" ("SFAS 123R"), using the prospective transition method. Under this transition method, stock-based compensation cost was recognised in the financial statements for all share-based payments granted after 1 October 2005. Under the fair value recognition provisions of SFAS 123R, stock-based compensation cost is measured at the grant date based on the value of the award and is recognised as expense over the service period.

The following table presents share-based compensation expenses included in the Company's Consolidated Statements of Operations:

	Years ended 30 September	
	2008	2007
Research and development	\$611,943	\$360,481
Sales and marketing	82,485	63,608
General and administrative	459,907	166,994
Total share-based compensation expense	\$1,154,335	\$591,083

At 30 September 2008, there is \$2,105,321 of future compensation cost to be recognised in future periods on outstanding options. That cost is expected to be recognised over a weighted-average period of 2.17 years.

SFAS 123R requires the benefits of tax deductions in excess of the compensation cost recognised for those options to be classified as financing cash inflows rather than operating cash inflows, on a prospective basis. The Company has fully reserved for any deferred tax benefits due to the uncertainty of future operating results and its ability to utilise the future tax benefit. As such, the classification as financing cash flows and the effect of adopting SFAS 123R had no effect on the Company's Consolidated Statements of Cash Flows.

The fair value of each stock option was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for the years ended 30 September 2008 and 2007:

	2008	2007
Expected volatility	72.0% – 73.0%	73.0%
Expected dividend yield	0.0%	0.0%
Expected risk-free interest rate	2.56% – 4.14%	4.33% – 5.05%
Expected term of options	3.73 – 10 years	3.73 – 10 years
Maximum contractual term	10 years	10 years
Estimated forfeitures	10.5% – 12.8%	12.8%

### *Stock Price*

All stock options issued from 1 October 2005 through 2 July 2006 were valued based on an independent valuation study of the Company performed for the Board.

All options issued subsequent to 2 July 2006 were valued based on the publicly traded market price of the stock.

### *Expected Volatility*

Due to having minimal publicly traded experience of its stock, the Company utilised an expected volatility disclosed by comparable traded companies volatility in similar industries, development stage and size.

### *Expected Dividend Yield*

The Company does not intend to pay dividends on its common stock for the foreseeable future and, accordingly, uses a dividend yield of zero in the Black-Scholes pricing model.

### *Expected Risk-Free Interest Rate*

The risk-free interest rates for stock options are based on the US Treasury yield curve in effect at the time of grant for maturities similar to the expected holding period of the stock options.

### *Expected Term*

The expected term of stock options granted is generally based on historical data and represents the period of time that the stock options granted are expected to be outstanding. The Company has had very limited stock option exercise experience to date, making the Company's determination of the "expected term" judgmental. Accordingly, the Company has based the expected term on publicly available information for companies in similar industries, development stage and size.

### *Estimated Forfeitures*

The Company has estimated employee stock option forfeitures as required under SFAS 123R for two groups of stock options (a) immediately vested options and (b) all others and is based on the Company's limited experience. Estimated forfeitures will be adjusted to actual forfeiture experience.

### **Net Loss Per Share**

Basic net loss per share is computed by dividing net loss by weighted-average common shares outstanding during the year. All common stock equivalents ("CSEs") were anti-dilutive for the years ended 30 September 2008 and 2007. Incremental common shares as a result of CSEs were not included in the denominator of the diluted earnings per share calculation due to their anti-dilutive nature.

### **Segment Reporting**

In accordance with the provisions of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", the Company has determined that it has only one operating segment. Additionally, all long-lived assets of the Company are located in the United States of America.

### **Recently Issued Accounting Pronouncements Not Yet Adopted**

In December 2007, the FASB issued SFAS No. 141 (revised), "Business Combinations" ("SFAS 141R"). The standard changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance. SFAS 141R is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. The Company does not expect the adoption of SFAS 141R to have a material impact on its financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements (an amendment of Accounting Research Bulletin (ARB 51))" ("SFAS No. 160"). SFAS No. 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 becomes effective beginning January 1, 2009 and is required to be adopted prospectively, except for the reclassification of noncontrolling interests to equity and the recasting of net income (loss) attributable to both the controlling and noncontrolling interests, which are required to be adopted retrospectively. The Company does not expect the adoption of SFAS No. 160 to have a material impact on its financial statements.

In February 2007, the FASB issued SFAS No. 159, "Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value. SFAS 159 requires the fair value of the assets and liabilities that the Company has chosen to fair value be shown on the face of the balance sheet. SFAS 159 also requires companies to provide additional information to enable users of the financial statements to understand the Company's reasons for electing the fair value option and how changes in the fair values affect earnings for the period. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for fiscal years beginning after 15 November 2007. The Company is currently evaluating the impact of SFAS 159 on the financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after 15 November 2007. The Company is currently evaluating the impact of SFAS 157 on the financial statements.