



# 2009

Interim Report



Revolutionising portable power



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Protonex is a leading provider of fuel cell power solutions focused on delivering cost-competitive and fully commercialised fuel cell products to the portable power marketplace.

Working with the world's leading industrial innovators to develop its expanding product portfolio, Protonex is delivering on the new promise of fuel cell technology: clean, quiet, efficient power systems that run on a broad range of fuels and deliver environmentally friendly energy.

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.

## Interim Results

For the Six Months Ended 31 March 2009 (unaudited)

# H1 2009 Highlights

**Protonex Technology Corporation** (the “Company” or “Protonex”) achieved significant milestones in the development of several key product areas in the first half of fiscal year 2009, 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 beginning in 2009 has continued to attract industry-leading development partners and positions the Company to be an early leader in this sector.

- **Continued** progress in moving PEM and SOFC fuel cell platforms towards initial commercial and military products
- **Introduced** and demonstrated M250-B product at several recreational vehicle (RV) trade shows in United States to generate and gauge interest. OEM and beta trials scheduled for H2 2009; general availability revised to 2010
- **Demonstrated** fully functional SOFC prototype systems running on propane fuel. Awarded \$1.5 million contract in January 2009 from US Army for liquid-fuelled SOFC system development
- **Strong** progress on several UAV development contracts with the US Military. \$3.3 million (\$2.2m base award with \$1.1m option) contract awarded in March 2009 by US Department of Defense to develop a high-performance UAV propulsion system for emerging AECV platform
- **BPM power managers** being evaluated in field by US Military. First units of SPM power managers shipped to several US Military agencies in the first half of calendar year 2009
- **H1 2009 fiscal year revenues** of \$2.6 million, a 17% decrease compared to \$3.2m in H1 2008, primarily as a result of contracting delays on new military programmes caused by change in US Administration and a general delay in the release of military contracts
- **Increasing opportunity** for US Government and Military funds to support product development and product purchases in 2010 and beyond. Driven primarily by general military needs and stimulus programmes
- **Transitioned** to Piper Jaffray for NOMAD/Broker services

### POST PERIOD END HIGHLIGHTS

- Hired Dave Ierardi as Vice President of Operations in May of 2009. Dave brings a very strong background in all facets of manufacturing and operations
- In May 2009, received a \$0.5 million contract extension from US Naval Research Lab for testing and refinement of UAV system

### H1 2009 RESULTS SUMMARY

	Six Months Ended 31 March 2009
Revenues	\$2,619,598
Operating expenses	\$10,117,935
Net loss	\$(7,543,122)
Net cash outflow	\$(6,791,943)

	Six Months Ended 31 March 2008
Revenues	\$3,158,388
Operating expenses	\$9,162,212
Net loss	\$(5,580,422)
Net cash outflow	\$(5,655,654)



HARRY FITZGIBBONS, CHAIRMAN



SCOTT A. PEARSON, CHIEF EXECUTIVE OFFICER

We are pleased to report that, through the first half of our 2009 fiscal year, the Company has made significant progress in virtually all areas of its business. On the military side, we have made great strides in moving core technologies into functional prototypes and products on various portable power units, unmanned aerial vehicle (UAV) propulsion systems and power management devices. The majority of these efforts are receiving ongoing funding from the US military.

On the non-military side, our primary focus has been on developing, testing, certifying, and preparing our M250-B product for initial consumer sales in mid to late 2009. However, on 5 May 2009, Protonex announced a strategic shift to position the Company more effectively in its targeted consumer, OEM and military markets. The Company decided to defer the 2009 launch of its M250-B product into the US recreational vehicle (RV) market until 2010 to focus more of its near-term technical and business development resources onto several increasingly attractive military opportunities including the military version of the M250-B, the M250-CX. This shift was also made to provide time for a set of cost reduction efforts on the M250-B product, which should make it more economically attractive when it does enter the RV market in 2010.

Several other non-military platforms, incorporating Proton Exchange Membrane (PEM) and Solid Oxide Fuel Cell (SOFC) technologies, are in earlier stages of development and prototyping to enable product launches in late 2010 and beyond.

### TRANSITION TO PRODUCT

For the last several years, the Company has been transitioning from being primarily a technology development company to being a product company. Today, that transition is substantially complete and Protonex is tightly focused on developing and launching a series of products that deliver strong value to a set of targeted military and commercial applications and markets. The current status of each of the Company's products or platforms is provided below:

**M250 Platform:** This 250-watt methanol-fuelled platform is the Company's most mature and enables several near-term products including:

- **M250-B:** This product integrates into a wide range of existing 12-volt battery systems to provide clean, quiet, hybrid power, eliminating the need to run internal combustion engines or generators. Protonex intends to focus initially on the significant US recreational vehicle (RV) market but also expects to sell this unit into the marine market as well as small, off-grid solar and wind installations. To date, Protonex has demonstrated the M250-B unit at several RV shows and has seen solid interest in the product. Throughout the second half of 2009, Protonex will be supporting a set of beta test sites and several OEM evaluations of the M250-B product. Initial customer availability of this product is planned for early 2010.

“For the last several years, the Company has been transitioning from being primarily a technology development company to being a product company. Today, that transition is substantially complete...”

## TRANSITION TO PRODUCT

### (CONTINUED)

- **M250-CX:** This product, which has been developed in parallel to the M250-B, is designed specifically for the US Military as a multi-functional field battery charger, auxiliary power unit and field generator. The development of the M250-CX system has been heavily funded by the US Military to provide soldiers with a portable power source to enable the use of rechargeable batteries on the battlefield and to provide portable power for a wide range of mission scenarios. This product is currently in its final design turn and is expected to begin shipping in evaluation quantities in the second half of calendar year 2009. Thereafter the Company would expect material orders if the unit, which the Directors believe meets a perceived area of need for the modern military, goes onto full field deployment.
- **M250-U:** This rack-mounted version of the M250 platform will be designed for a range of low power DC backup and UPS applications. This commercial unit will allow network and system operators to deliver extended-run backup power without the bulk and maintenance of traditional battery banks. Protonex has seen strong initial interest in this type of product from several of the leading backup equipment companies and is currently in discussions about potential OEM supply agreements. Evaluation sales to these potential OEM customers are

expected in calendar 2009 and prototype and product shipments of the M250-U could occur in 2010 or beyond.

- **M250-G:** This unit will follow the M250-B product and be a fully portable fuel cell generator that can directly provide power to lower power AC and DC equipment. The M250-G will not need to be tethered to a 12-volt battery bank. The Company is targeting a mid to late 2010 launch date for this clean, quiet alternative to small generators.

**SOFC Platforms:** Protonex SOFC platforms have made extensive progress since our last report. The Company has recently demonstrated the operation of fully packaged SOFC systems running on propane and is making great strides in the processing of more energy dense liquid fuels including kerosene, butanol, gasoline, and diesel. Protonex is expecting its first SOFC product to be introduced to non-military markets in mid to late 2010.

Protonex has been receiving an increasing amount of interest in its solid oxide power systems from US government agencies. In the past six months, the Company secured one major SOFC development contract from the US Military and is expecting one or more additional development contracts to be signed before the end of calendar 2009. SOFC development funds are critical in that they allow the Company to refine the technology more quickly and to get important exposure to customer requirements.

**UAV/UGV Power Systems:** Protonex is a recognised leader in the development of ultra-high performance propulsion systems for small unmanned vehicles used by the US Military. These PEM systems are fuelled by advanced chemical hydrides or gaseous hydrogen and enable two to four times the mission durations of advanced batteries. While the Company continues to exhibit the functionality and importance of its fuel cells in ongoing military demonstrations, our military customers are now starting to commit to and make significant investments to commercialise the technology into deployable systems. A prime example of this move to product is the recent \$3.3m contract received by the Company in March 2009 to develop, test and trial a fuel cell propulsion system for the All Environment Capable Variant (AECV) UAV platform. The Directors assess that the potential market for these premium products may be several thousand systems per annum plus the accompanying cartridge-based, single-use fuel packs. Initial deployment, assuming the unit continues its good progress, would likely be in late 2010 or early 2011.

**Power Managers:** The Protonex BPM and SPM power managers are small electronic devices that allow military users to centralize and optimize their mobile power requirements by establishing a local, intelligent power network. The BPM power manager products are now available and are being evaluated by several branches of the US military. BPM units are currently being utilised



"THE M250-B PRODUCT, TARGETED INITIALLY AT RECREATIONAL VEHICLE AND RELATED MARKETS, IS CURRENTLY PLANNED FOR INITIAL CUSTOMER AVAILABILITY IN EARLY 2010."

## TRANSITION TO PRODUCT (CONTINUED)

in Iraq and in Afghanistan. The first SPM power managers were shipped to military customers in the first half of calendar year 2009. The Directors believe that the potential market for these systems may be well into the tens of thousands of units per annum if power managers, as expected, become an integral part of on-soldier power systems.

As the aforementioned products are launched and begin to gain traction, Protonex' business systems and infrastructure will continue to scale. In anticipation of this growth, the Company is currently in the final stages of implementing a new Enterprise Resource Planning (ERP) system to manage and coordinate many aspects of its business – from engineering control and manufacturing to sales and accounting. We expect this ERP system to be installed and fully operational in August 2009. On a related note, Protonex hired Dave Ierardi on 11 May 2009 as our Vice President of Operations. Dave brings a very strong operations background to Protonex with specific capabilities in contract manufacturing selection and management, supply chain, cost reductions, quality, and new product introduction. Dave is expected to be instrumental in scaling and outsourcing the Company's growing manufacturing volumes.

## FINANCIAL REVIEW

Revenues for the six months ended 31 March 2009 totalled \$2.62 million, a decrease of 17% over the comparative period in 2008. Approximately 99% of the revenue during the period was associated with US Government sponsored development contracts. In comparison, revenues during the six months ended 31 March 2008 were \$3.16 million, all of which were from US Government sponsored development contracts. The reduction in revenue from the prior period was primarily due to the change in US Administration and a general delay in the release of military contracts. These delays are now clearing and contracts have started to release.

As the Company has continued to grow and invest in its future business, operating expenses have increased 10% to \$10.12 million for the six months ended 31 March 2009 from \$9.16 million for the six months ended 31 March 2008. The increase in operating expenses was planned and was primarily the result of the significant expansion in the size of the technical and manufacturing operations, increased spending on product development, marketing programmes, and higher depreciation expenses.

Interest income for the six months ended 31 March 2009 decreased to \$0.06 million, compared to \$0.57 million

for the six months ended 31 March 2008. 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 highly secure US Treasury money market fund in December 2007. The net loss for the six months ended 31 March 2009 was \$7.54 million, compared to \$5.58 million for the six months ended 31 March 2008.

The Company's balance sheet remains satisfactory with \$17.51 million in cash and cash equivalents at 31 March 2009. The net cash used in operating activities during the six months ended 31 March 2009 was \$6.28 million, compared to \$5.45 million for the six months ended 31 March 2008. Cash outflows attributable to capital expenditures totalled \$0.5 million during the six months ended 31 March 2009, compared to \$0.2 million for the six months ended 31 March 2008. The overall net cash outflows for the six months ended 31 March 2009 of \$6.79 million compared with \$5.66 million of net cash outflows for the six months ended 31 March 2008.

## REVIEW AND OUTLOOK

The Company continued to perform well in the first half of 2009 – executing on its business plan, meeting the bulk of its operational milestones and driving initial

“The Company expects to begin delivering evaluation quantities of its M250-CX military battery charging product to its US Army customers in the second half of calendar 2009.”

products to market but because of several delayed government programme starts, the Company delivered financial results in the first half of its 2009 fiscal year that were somewhat below its expectations. As previously communicated, the Company very much views this as a temporary problem that was associated with an unusually slow federal budget process and the recent change in Administration.

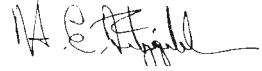
The Company remains on course for launching products in 2009 and beyond. On the military side of the business, the Company is actively marketing its BPM and SPM power management products to many branches of the US Military and is optimistic of generating continued evaluation-level sales and possibly a low volume order in fiscal 2009. With more technical and business development resources focused on its M250-CX product, the Company expects to begin delivering evaluation quantities of its M250-CX military battery charging product to its US Army customers in the second half of calendar 2009. The M250-B product, targeted initially at recreational vehicle and related markets, is currently planned for initial customer availability in early 2010. The market response to the M250-B product has been positive but, given the potential impact of the current economic downturn, Protonex believes that the strategic decision to

defer its launch will enable the Company to market the product at a lower sales price, with stronger margins and with a higher probability of success in 2010.

Looking forward, Protonex has three main reasons to be optimistic around Government contracts. First, the Company continues to do well in identifying, capturing and delivering on Government contracts. Government funding opportunities are available for capable companies working on critical equipment and Protonex is well-suited to participate. Second, several of the government programmes that were expected to result in contracts for the Company in the first half of fiscal 2009, have now commenced or are expected to do so shortly. These delayed programmes had a negative impact on the first half of 2009 but are expected to have a positive impact on the second half of 2009 and on 2010. Third, Protonex is seeing considerable new activity around US federal stimulus programmes for clean or alternative energy projects at the US Departments of Defense and Energy. Protonex is well-positioned for these incremental stimulus funds and is pursuing them aggressively.

In summary, the Directors of Protonex are optimistic about the Company's prospects in 2009 and beyond as a number of the ongoing funded US Military

programmes are expected to move toward deployment and a number of non-military products are launched from early calendar 2010.



**Harry Fitzgibbons**  
Chairman  
22 June 2009



**Scott A. Pearson**  
Chief Executive Officer  
22 June 2009



"THE COMPANY HAS RECENTLY DEMONSTRATED THE OPERATION OF FULLY PACKAGED SOFC SYSTEMS RUNNING ON PROPANE AND IS MAKING GREAT STRIDES IN THE PROCESSING OF MORE ENERGY DENSE LIQUID FUELS..."

### 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 5 JUNE 2009

64,905,894

### 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 financing 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 PEM fuel cell stacks to complete PEM and SOFC 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 operations 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 88 employees as of 31 May 2009.

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.



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"PROTONEX' MILITARY CUSTOMERS ARE NOW STARTING TO COMMIT TO AND MAKE SIGNIFICANT INVESTMENTS TO COMMERCIALISE ITS UAV AND UGV POWER SYSTEM TECHNOLOGY INTO FIELDABLE SYSTEMS."

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. Since 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 which could 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 located 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) 31 March 2009	30 September 2008 <sup>(1)</sup>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 17,511,565	\$ 24,303,508
Accounts receivable, net of allowance for doubtful accounts of \$27,355 at 31 March 2009 and 30 September 2008	1,087,870	1,503,233
Inventory, net	295,994	409,553
Prepaid expenses and other current assets	215,817	320,876
<b>Total current assets</b>	<b>19,111,246</b>	<b>26,537,170</b>
Property and equipment, net of accumulated depreciation and amortisation of \$1,225,840 and \$873,215 at 31 March 2009 and 30 September 2008, respectively	1,971,727	1,762,237
Goodwill	7,816,990	7,816,990
Intangible assets, net of accumulated amortisation of \$219,267 and \$164,300 at 31 March 2009 and 30 September 2008, respectively	439,733	494,700
Other assets	52,880	52,880
<b>Total assets</b>	<b>\$ 29,392,576</b>	<b>\$ 36,663,977</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable (includes related party payables of \$927 and \$36,959 at 31 March 2009 and 30 September 2008, respectively)	\$ 506,430	\$ 650,144
Accrued expenses	701,285	1,012,616
Deferred revenue	40,465	108,150
Current portion of capital lease obligation	38,655	—
<b>Total current liabilities</b>	<b>1,286,835</b>	<b>1,770,910</b>
Long term portion of capital lease obligation	23,594	—
Deferred tax liability	391,058	296,070
<b>Total liabilities</b>	<b>1,701,487</b>	<b>2,066,980</b>
<b>Commitments and contingencies (Note 6)</b>		
<b>Stockholders' equity:</b>		
Common stock, \$0.005 par value; 85,000,000 shares authorised; 63,885,296 and 63,868,366 shares issued and outstanding	319,427	319,342
Additional paid-in capital	65,566,338	64,929,209
Deficit accumulated during the development stage	(38,194,676)	(30,651,554)
<b>Total stockholders' equity</b>	<b>27,691,089</b>	<b>34,596,997</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 29,392,576</b>	<b>\$ 36,663,977</b>

<sup>(1)</sup> Derived from audited financial statements.

See accompanying notes to the condensed consolidated financial statements.

Protonex Technology Corporation (A Development Stage Company)  
 Consolidated Statements of Operations (unaudited)

	Six Months Ended 31 March		Period from
	2009	2008	6 October 2000 (inception) to 31 March 2009
<b>Revenues:</b>			
Third-party revenues	\$ 2,619,598	\$ 3,158,388	\$ 21,548,074
Related-party revenues	—	—	313,200
<b>Total revenues</b>	<b>2,619,598</b>	<b>3,158,388</b>	<b>21,861,274</b>
<b>Operating expenses:</b>			
Research and development	7,097,200	6,445,748	41,094,945
In-process research and development	—	—	1,852,000
Sales and marketing	712,788	570,494	3,877,151
General and administrative	2,307,947	2,145,970	15,613,716
<b>Total operating expenses</b>	<b>10,117,935</b>	<b>9,162,212</b>	<b>62,437,812</b>
<b>Loss from operations</b>	<b>(7,498,337)</b>	<b>(6,003,824)</b>	<b>(40,576,538)</b>
<b>Other income (expense):</b>			
Interest income	56,392	566,229	2,802,107
Interest expense	(2,490)	—	(46,387)
Miscellaneous income (loss)	(1,665)	(46,023)	22,892
<b>Total other income, net</b>	<b>52,237</b>	<b>520,206</b>	<b>2,778,612</b>
<b>Loss before provision for income taxes</b>	<b>(7,446,100)</b>	<b>(5,483,618)</b>	<b>(37,797,926)</b>
Provision for income taxes	(97,022)	(96,804)	(396,750)
<b>Net loss</b>	<b>\$ (7,543,122)</b>	<b>\$ (5,580,422)</b>	<b>\$ (38,194,676)</b>
<b>Basic and diluted net loss per common share</b>	<b>\$ (0.12)</b>	<b>\$ (0.09)</b>	
<b>Weighted average common shares outstanding:</b>			
Basic and diluted	63,770,381	63,413,128	

See accompanying notes to the condensed consolidated financial statements.

## Protonex Technology Corporation (A Development Stage Company) Consolidated Statements of Changes in Stockholders' Equity (unaudited)

Period from 30 September 2008 to 31 March 2009

	Common Stock		Restricted Common Stock		Additional Paid-in Capital	Deficit Accumulated During the Development Stage	Total Equity
	Shares	Par Value	Shares	Amount			
<b>Balance, 30 September 2008</b>	63,672,272	\$ 318,361	196,094	\$ 981	\$ 64,929,209	\$ (30,651,554)	\$ 34,596,997
Stock options exercised	16,930	85	—	—	3,046	—	3,131
Conversion of restricted shares to common stock	130,724	653	(130,724)	(653)	—	—	—
Share-based compensation	—	—	—	—	634,083	—	634,083
Net loss	—	—	—	—	—	(7,543,122)	(7,543,122)
<b>Balance, 31 March 2009</b>	<b>63,819,926</b>	<b>\$ 319,099</b>	<b>65,370</b>	<b>\$ 328</b>	<b>\$ 65,566,338</b>	<b>\$ (38,194,676)</b>	<b>\$ 27,691,089</b>

See accompanying notes to the condensed consolidated financial statements.

## Consolidated Statements of Cash Flows (unaudited)

	Six Months Ended 31 March		Period from
	2009	2008	6 October 2000 (inception) to 31 March 2009
<b>Cash flows from operating activities:</b>			
Net loss	\$ (7,543,122)	\$ (5,580,422)	\$ (38,194,676)
Reconciliation of net loss to net cash used in operating activities:			
In-process research and development	—	—	1,852,000
Depreciation of property and equipment	362,321	228,868	1,302,471
Amortisation of intangible assets	54,967	56,333	222,600
Non-cash expense for services	—	—	4,080
Loss on disposal of fixed assets	1,665	46,023	83,585
Loss on impairment of intangible assets	—	—	13,667
Non-cash interest expense	—	—	38,269
Deferred tax provision	94,988	96,804	391,058
Stock-based compensation	634,083	607,571	3,175,063
Changes in assets and liabilities, net of acquisitions:			
Accounts receivable, net	415,363	(537,098)	(341,293)
Inventory, net	113,559	(267,995)	(283,773)
Prepaid expenses and other current assets	105,059	132,376	(178,055)
Other assets	—	874	(45,325)
Accounts payable	(143,714)	(193,064)	311,422
Accrued expenses	(311,331)	(53,603)	513,629
Deferred revenue	(67,685)	11,343	40,465
<b>Net cash used in operating activities</b>	<b>(6,283,847)</b>	<b>(5,451,990)</b>	<b>(31,094,813)</b>
<b>Cash flows from investing activities:</b>			
Cash paid for acquisition of Mesoscopic Devices LLC, net of cash acquired	—	(477,645)	(3,399,946)
Cash held in escrow	—	477,645	(22,355)
Additions to property and equipment	(496,167)	(203,664)	(3,202,632)
<b>Net cash used in investing activities</b>	<b>(496,167)</b>	<b>(203,664)</b>	<b>(6,624,933)</b>

Protonex Technology Corporation (A Development Stage Company)  
**Consolidated Statements of Cash Flows (unaudited) continued**

	Six Months Ended 31 March		Period from
	2009	2008	6 October 2000 (inception) to 31 March 2009
<b>Cash flows from financing activities:</b>			
Proceeds from notes	\$ —	\$ —	\$ 350,000
Payment on capital lease	(15,060)	—	(15,060)
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	3,131	—	198,405
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
Common stock repurchased	—	—	(3,610)
<b>Net cash provided by (used for) financing activities</b>	<b>(11,929)</b>	<b>—</b>	<b>55,231,311</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(6,791,943)</b>	<b>(5,655,654)</b>	<b>17,511,565</b>
Cash and cash equivalents, beginning of period	24,303,508	33,874,522	—
<b>Cash and cash equivalents, end of period</b>	<b>\$ 17,511,565</b>	<b>\$ 28,218,868</b>	<b>\$ 17,511,565</b>
<b>Supplemental cash flow information:</b>			
Cash paid for:			
Interest	\$ —	\$ —	\$ 5,628
Income taxes	\$ 2,500	\$ 456	\$ 5,702
<b>Supplemental disclosure of non-cash investing and 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
Acquisition of equipment utilising capital lease	\$ 77,309	\$ —	\$ 77,309
<b>Supplemental disclosure of acquisition:</b>			
On 1 April 2007, Protonex acquired Mesoscopic Devices LLC (Note 3)			
Accounts receivable	\$ —	\$ (22,355)	\$ 739,436
Inventories	—	—	12,221
Property, plant and equipment	—	—	77,844
Other assets	—	—	45,315
Intangible assets	—	—	2,528,000
Goodwill	—	500,000	7,316,990
Accounts payable and accrued expenses	—	—	(375,522)
Cash paid for Mesoscopic Devices LLC, including cash released from escrow and net of cash acquired	—	(477,645)	(2,922,301)
<b>Fair value of common stock issued</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 7,421,983</b>

See accompanying notes to the condensed consolidated financial statements.

## Notes to the Condensed Consolidated Financial Statements (unaudited)

### NOTE 1 – ORGANISATION, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 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 31 March 2009 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.

#### Basis of Presentation

The accompanying unaudited condensed 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”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by US GAAP for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation have been included in the accompanying unaudited financial statements. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the fiscal year. The Company suggests that these interim condensed financial statements be read in conjunction with the audited financial statements for the fiscal year ended 30 September 2008 which are contained in the Company’s Annual Report covering the fiscal year ended 30 September 2008.

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; 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 unaudited condensed 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 \$7,543,122 and \$5,580,422 for the six months ended 31 March 2009 and 2008 respectively, and had an accumulated deficit of \$38,194,676 as of 31 March 2009. 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.

#### Summary of Significant Accounting Policies

A summary of the Company’s significant accounting policies are disclosed in its Annual Report for the year ended 30 September 2008 and have not changed materially as of 31 March 2009.

#### 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 six months ended 31 March 2009 and 2008 were \$7,097,200 and \$6,445,748, respectively.

**NOTE 1 – ORGANISATION, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
(CONTINUED)

**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:

	Six Months Ended 31 March	
	2009	2008
Research and development	\$ 349,256	\$ 296,261
Sales and marketing	45,768	43,776
General and administrative	239,059	267,534
<b>Total share-based compensation expense</b>	<b>\$ 634,083</b>	<b>\$ 607,571</b>

At 31 March 2009, there is \$1,546,505 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 1.7 years.

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 six months ended 31 March 2009 and 2008:

	2009	2008
Expected volatility	83.0%	73.0%
Expected dividend yield	—	—
Expected risk-free interest rate	1.79% – 2.42%	4.06% – 4.14%
Expected term of options	4.79 – 5.86 years	3.73 – 8 years
Maximum contractual term	10 years	10 years
Estimated forfeiture rate	12.1%	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 based on publicly available information as to the volatility of comparable traded companies 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.

## Notes to the Condensed Consolidated Financial Statements (unaudited) continued

### NOTE 1 – ORGANISATION, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Stock-Based Compensation (continued)

##### 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 are adjusted to actual forfeiture experience.

##### 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 capitalised 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 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.

In February 2008, the FASB issued Staff Position 157-2, "Effective Date of FASB Statement No. 157" ("FSP 157-2"). FSP 157-2 delays the effective date of SFAS 157 for non-financial assets and non-financial liabilities, except for certain items that are recognised or disclosed at fair value in the financial statements on a recurring basis. This FSP will be effective for fiscal years beginning after 15 November 2008, and interim periods within those fiscal years for items within the scope of this FSP.

## NOTE 2 — NET LOSS PER SHARE

The components of basic and diluted loss per share for the six months ended 31 March 2009 and 2008 are as follows:

	2009	2008
Net loss, basic and diluted	\$ (7,543,122)	\$ (5,580,422)
Weighted average outstanding shares of common stock	63,770,381	63,413,128
Basic and diluted net loss per share	\$ (0.12)	\$ (0.09)

All common stock equivalents were anti-dilutive for the six months ended 31 March 2009 and 2008. Incremental common shares not included in the denominator of the diluted earnings per share calculation due to their anti-dilutive nature are as follows:

	2009	2008
Stock options	6,837,946	6,685,324
Contingent shares	1,020,598	1,020,598
Unvested restricted stock	65,370	326,818
	7,923,914	8,032,740

## NOTE 3 — BUSINESS ACQUISITIONS

### Acquisition of Mesoscopic Devices, LLC

Effective 1 April 2007, the Company acquired all of the shares of Mesoscopic Devices, LLC. Mesoscopic is a Colorado-based fuel cell technology company and provider of portable power fuel cell solutions. The Company acquired Mesoscopic to expand its fuel diversity, market reach and technology portfolio. The acquisition has been accounted for under the purchase method of accounting and the results of operations of the acquired business have been included in the consolidated financial statements of the Company since 1 April 2007. The purchase price as subsequently adjusted for contingent consideration paid to the sellers was \$10,824,201, which consisted of 4,082,385 shares of Common Stock of the Company with an aggregate fair value of \$7,421,983, cash of \$3,189,125 and \$213,093 in direct acquisition costs. The Common Stock is subject to various lock-up restrictions between six and 30 months in duration from 3 April 2007. As of 31 March 2009, 1,632,954 shares were subject to lock-up and 2,449,431 were released from restrictions.

Pursuant to the acquisition agreement, the Company deposited \$500,000 into an escrow account which was to be released to the sellers after twelve months subject to any indemnification claims of the Company. In January 2008, the Company filed an escrow claim for \$29,496 of which it retained \$22,355. In April and May 2008, the balance in the escrow account of \$477,645 was released to the sellers and the remaining \$22,355 was returned to the Company. As a result, this payment represented additional purchase price and has been recorded as additional goodwill during the period ended 31 March 2008.

At the time of the acquisition the Company also issued contingent consideration consisting of 1,020,598 additional shares (the "Contingent Shares") of Common Stock of the Company. The Contingent Shares are issued but held in escrow subject to the achievement of certain unit sale milestones. This additional contingent consideration will be accounted for as additional purchase price to the extent the milestones are met and the shares are released. As of 31 March 2009, no milestones have been met.

## Notes to the Condensed Consolidated Financial Statements (unaudited) continued

### NOTE 3 — BUSINESS ACQUISITIONS (CONTINUED)

#### Acquisition of Mesoscopic Devices, LLC (continued)

The aggregate purchase price for the Mesoscopic business was allocated to the assets acquired and liabilities assumed at the date of acquisition as follows:

Total purchase consideration:

Common stock issued	\$ 7,421,983
Cash	3,189,125
Transaction costs	213,093
	\$ 10,824,201

Allocation of the purchase consideration:

Cash	\$ 2,272
Accounts receivable	709,940
Inventory	12,221
Prepaid and other current assets	37,760
Property and equipment, net	77,844
Goodwill	7,816,990
Core technology	555,000
In-process research and development	1,852,000
Other intangible assets	121,000
Other assets	7,555
Total assets acquired	11,192,582
Accounts payable and accrued expenses	368,381
Total liabilities assumed	368,381
Net assets acquired	\$ 10,824,201

For tax purposes, goodwill generated from this acquisition amounted to \$8,521,368 and is deductible over a 15-year period. The values allocated to the acquired core technology and other intangible assets are being amortised on a straight-line basis over the estimated useful life of six years. The core technology and other intangible assets are included in intangible assets, net in the accompanying consolidated balance sheets at 31 March 2009 and 30 September 2008. The Company has also evaluated certain in-process research and development projects and has expensed, as in-process research and development, those projects that had not at the date of the acquisition attained technical feasibility, meaning they had not reached the working model stage, did not contain all of the major functions planned for the products and were not ready for initial customer testing. The amount expensed during the year ended 30 September 2007 was \$1,852,000 and was included in our consolidated statement of operations. There was no in-process research and development expensed in the six months ended 31 March 2009 and 2008. The in-process research and development was valued based on discounting estimated cash flows from the related products. The in-process research and development did not have any alternative future use and did not otherwise qualify for capitalisation. As a result, this amount was expensed upon acquisition.

#### NOTE 4 – INTANGIBLE ASSETS

The following is a summary of intangible assets as of 31 March 2009 and 30 September 2008:

	31 March 2009			
	Gross Carrying Amount	Accumulated Amortisation	Net Carrying Value	Useful Life
<b>Amortised intangible assets with finite lives:</b>				
Core technology	\$ 555,000	\$ 185,000	\$ 370,000	6 years
Other intangible assets	104,000	34,267	69,733	6 years
<b>Total intangible assets with finite lives</b>	<b>\$ 659,000</b>	<b>\$ 219,267</b>	<b>\$ 439,733</b>	

	30 September 2008			
	Gross Carrying Amount	Accumulated Amortisation	Net Carrying Value	Useful Life
<b>Amortised intangible assets with finite lives:</b>				
Core technology	\$ 555,000	\$ 138,750	\$ 416,250	6 years
Other intangible assets	104,000	25,550	78,450	6 years
<b>Total intangible assets with finite lives</b>	<b>\$ 659,000</b>	<b>\$ 164,300</b>	<b>\$ 494,700</b>	

The Company amortises intangible assets with finite lives using the straight-line method over the above estimated useful lives of the respective intangible asset. The Company considers the straight-line method to be appropriate, as it approximates the pattern in which economic benefits are consumed in circumstances where such patterns can be reliably determined. During the six months ended 31 March 2009 and 2008, amortisation expense of intangible assets amounted to \$54,967 and \$56,333, respectively and is included in research and development expenses in the accompanying consolidated statements of operations. During the year ended 30 September 2008 the Company determined that one of its patents and trademarks included in other intangible assets was impaired and recorded an impairment charge of \$13,667, reducing the net carrying value of these assets to \$2,700 at 30 September 2008.

#### NOTE 5 – COMMON STOCKHOLDERS' EQUITY

##### Restricted Stock

A summary of the Company's restricted stock activity for the six months ended 31 March 2009 and 2008 is presented in the table below:

	Six Months Ended 31 March	
	2009	2008
Outstanding 1 October	196,094	529,858
Converted to common stock	(130,724)	(203,040)
<b>Outstanding 31 March</b>	<b>65,370</b>	<b>326,818</b>

During the six months ended 31 March 2009 and 2008 a total of 130,724 and 203,040 restricted shares vested, respectively. As of 31 March 2009, there were 65,370 restricted shares unvested. The remaining unvested shares will vest in the year ended 30 September 2009.

The Company calculated the aggregate difference between the deemed fair value of the restricted shares at the time of purchase and the purchase price. The Company recognises the compensation expense ratably during the vesting period of the underlying common stock. During the six months ended 31 March 2009 and 2008, the Company recognised \$11,111 and \$13,657 of compensation expense, respectively, which is included in operating expenses in the accompanying consolidated statements of operations. As of 31 March 2009 the unamortised value of the restricted stock was \$735. This value will be amortised over the remaining vesting period of the restricted shares of approximately three months.

## Notes to the Condensed Consolidated Financial Statements (unaudited) continued

### NOTE 5 – COMMON STOCKHOLDERS' EQUITY (CONTINUED)

#### Common Stock

On 3 April 2007, the Company closed the acquisition of Mesoscopic effective as of 1 April 2007 (See Note 3). In connection with the Mesoscopic acquisition, 1,020,598 shares of common stock issued but held in escrow subject to meeting certain unit sale milestones are not considered outstanding for accounting purposes until the achievement of the unit sale milestones. As a result, these shares are not included in the issued and outstanding shares as of 31 March 2009 and 30 September 2008.

In addition, on 3 April 2007, the Company completed an equity financing and sold 16,000,000 new shares of common stock at a per share price of UK 88 pence and U.S. \$1.725. The Company raised a total of \$27,721,751 at the then effective exchange rate and before cash transaction costs of \$1,204,376.

As of 31 March 2009 and 30 September 2008, there were 63,885,296 and 63,868,366 common shares, respectively, issued and outstanding, of which 63,819,926 and 63,672,272, respectively, were unrestricted and 65,370 and 196,094, respectively, were restricted.

#### Stock Options

In October 2003, the Company's Board of Directors approved the 2003 Stock Incentive Plan, which allows for the granting of incentive stock options ("ISOs"), non-qualified stock options, stock appreciation rights, performance shares and restricted stock to employees, officers, Directors, advisors and consultants of the Company. In March 2009, the Company's shareholders approved an amendment to the 2003 Stock Incentive Plan to increase the number of shares of the Company's common stock that may be issued under the plan from 8,800,000 to 9,700,000 shares. As of 31 March 2009, 1,836,615 shares remain available for future grant. To date, the Company has issued ISOs and non-qualified stock options under the 2003 Stock Incentive Plan, and has not issued any stock appreciation rights, performance shares or restricted stock.

A summary of the status of all of the Company's stock options for the six months ended 31 March 2009 is presented below:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding – 1 October 2008	6,787,597	\$0.964		
Granted	442,920	0.793		
Exercised	(16,930)	0.185		
Forfeited	(192,991)	1.347		
Expired	(182,650)	0.878		
<b>Outstanding – 31 March 2009</b>	<b>6,837,946</b>	<b>\$0.946</b>	<b>7.40</b>	<b>\$966,026</b>
<b>Exercisable – 31 March 2009</b>	<b>4,790,378</b>	<b>\$0.786</b>	<b>6.96</b>	<b>\$893,050</b>
			Six Months Ended 31 March	
			2009	2008
Weighted average grant date fair value per share of options granted			\$0.524	\$1.123
Total intrinsic value of share options exercised			\$7,782	\$ —

## NOTE 6 – COMMITMENTS

### Leases

The Company conducts its operations in leased facilities under operating lease agreements and has lease commitments for certain equipment. The rent and related expenses under these agreements totaled \$307,696 and \$285,334 for the six months ended 31 March 2009 and 2008, respectively.

In October 2006, the Company entered into an amendment to the operating lease agreement to expand its facility in Southborough, Massachusetts. The lease originally commenced on 1 February 2004, and requires a base rent plus tax and common area maintenance charges and has been re-written to expire in December 2011. The Company is also required to maintain a security deposit of \$45,324 related to this agreement.

As of 31 March 2009 and 30 September 2008, the Company maintained deposits totaling \$52,880, as security deposits related to all operating lease agreements.

In connection with the acquisition of Mesoscopic, effective on 1 April 2007 (See Note 3), the Company assumed the operating lease agreement in Broomfield, Colorado. The lease originally commenced on 1 March 2003 and requires a base rent plus tax and common area maintenance charges and has been re-written to expire in August 2010. The Company is also required to maintain a security deposit of \$7,525 related to this agreement.

Minimum future payments required under operating leases are as follows:

For the Years Ending 30 September

2009	\$ 299,781
2010	459,221
2011	271,945
2012	45,324
<b>Total</b>	<b>\$1,076,271</b>

## NOTE 7 – TAXES ON INCOME

At 31 March, the provision for income taxes consists of the following:

	Six Months Ended 31 March	
	2009	2008
Current:		
Federal	\$ —	\$ —
State	2,034	—
	<b>2,034</b>	<b>—</b>
Deferred:		
Federal	88,592	82,911
State	6,396	13,893
	<b>94,988</b>	<b>96,804</b>
<b>Total provision for income taxes</b>	<b>\$ 97,022</b>	<b>\$ 96,804</b>

The Company's deferred tax liabilities are created by goodwill as a result of the acquisition of Mesoscopic. In accordance with SFAS 142, deferred tax liabilities resulting from the different treatment of goodwill for book and tax purposes cannot offset deferred tax assets in determining the valuation allowance. As a result, a deferred tax provision is required to increase the Company's valuation allowance. The deferred tax liability as a result of the goodwill associated with the Mesoscopic acquisition as of 31 March 2009 is \$391,058 and as of 30 September 2008 was \$296,070.

## Notes to the Condensed Consolidated Financial Statements (unaudited) continued

### NOTE 7 – TAXES ON INCOME (CONTINUED)

The Company recorded a valuation allowance equal to the gross deferred tax assets at 31 March 2009 and 2008. Due to the uncertainty of future operating results, management believes it to be more likely than not that the gross deferred tax assets will not be realised; therefore, a full valuation allowance has been recorded.

Effective 1 October 2007 the Company adopted the provisions of FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”). As of the date of adoption, the total amount of net unrecognised tax benefit was \$673,113 which has been recorded with an offsetting adjustment to the valuation allowance. Accordingly, there was no adjustment to accumulated deficit at the date of adoption.

The Company did not recognise any accrued interest and penalties related to unrecognised tax benefits as no amounts would be due as a result of the Company’s net tax loss carryforward. The Company’s policy is to record interest and penalties related to unrecognised tax benefits in income tax expense. Tax years for 2000 to 2008 remain subject to examination for Federal and state jurisdictions. The primary state jurisdiction is the Commonwealth of Massachusetts.

The Company has not completed an in-depth study to fully assess the amount of benefit related to Federal and state research and development credits due to the complexity of the study. The Company expects to further refine its FIN48 analysis surrounding its research and development credits within the current fiscal year upon completion of the study.

### NOTE 8 – RELATED PARTIES

Parker Hannifin Corporation (“Parker”) and an affiliate Parker Hannifin Foundation (“Parker Foundation”) are significant shareholders in the Company. As of 31 March 2009, Parker and Parker Foundation held 12,731,500 common shares of the Company, representing 19.6% of the common shares issued and outstanding, including as outstanding the Contingent Shares issued in conjunction with the Mesoscopic acquisition. Since 1 April 2005, Akbar Naderi, a vice president of Parker has been a Non-Executive Director of the Company. In October 2004, the Company entered into an agreement with Parker to jointly develop certain products, establish a manufacturing relationship for various components or portions of fuel cell systems, and permit Parker to sell Protonex Fuel Cell Systems into certain commercial and consumer applications. The agreement was amended and restated in March 2006. The amended agreement has a term of five years, unless extended in writing by the mutual consent of both parties. Additionally in May 2007, the Company entered into an agreement with Parker to sublicense certain third-party intellectual property to Parker. During the six months ended 31 March 2009 and 2008, the Company had purchases from Parker of \$40,564 and \$39,973, respectively. As of 31 March 2009 and 30 September 2008, \$927 and \$12,959, respectively, due to Parker were included in accounts payable.

Through the acquisition of Mesoscopic, the Company began a relationship with CBC America Corporation (“CBC”). Prior to the acquisition of Mesoscopic, CBC was a shareholder in Mesoscopic and as a result of the acquisition of Mesoscopic by the Company, CBC became a shareholder in the Company. CBC is a wholly owned subsidiary of CBC Co. Ltd. of Tokyo, Japan. CBC also facilitates purchases by the Company of components for fuel cell development from international suppliers. Effective as of July 2008, the Company entered into an agreement with CBC and another party to jointly develop certain products. During the six months ended 31 March 2009 and 2008 the Company had purchases from CBC of \$60,000 and \$30,579. As of 30 September 2008, \$24,000 due to CBC was included in accounts payable.

### NOTE 9 – CONCENTRATIONS

For the six months ended 31 March 2009 and 2008, the Company had government sponsored contract revenue of \$2,597,615 and \$3,158,388 which represented approximately 99% and 100%, respectively, of total revenue. As of 31 March 2009 and 30 September 2008, accounts receivable from government agencies accounted for 73%, and 64%, respectively, of total accounts receivable.





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