Quarterly Update

Edison investment research

24 September 2007

Protonex Technology Corporation

Year End	Revenue ($m)	PBT* ($m)	EPS* (¢)	DPS (¢)	PE (x)	Yield (%)
09/05	1.76	(2.22)	(57.9)	0.0	N/A	N/A
09/06	2.32	(5.18)	(36.7)	0.0	N/A	N/A
09/07e	5.80	(7.83)	(14.9)	0.0	N/A	N/A
09/08e	11.00	(8.70)	(13.8)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items

Investment summary: CEO interview

With Protonex' financial year drawing to a close we took the opportunity to interview Scott Pearson, the CEO, ahead of his London visit. We remain confident that the company will perform in line with expectations. The recent announcements of a new military contract with Raytheon and a first civilian contract with Cummins all suggest strong third-party endorsement for this business.

Military contracts continue to pay development dividends

The strategy of earning revenue and funding the development of its fuel cell programmes by military contracts continues to pay dividends. Both the 250W Valta™ auxiliary power unit and the ProCore™ UAV power systems are largely funded by development contracts won under competitive tender. This funded development forms the foundation for product innovation in the civilian market.

Preparing to tackle the civilian market

News that work will begin this autumn on the next civilian generation for Valta™ 250 'for sale' in 2008 is welcome. Innovations from the military version and component savings indicate that Protonex will offer a very competitive product.

Lack of third-party verification

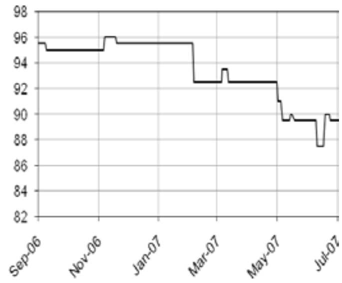
It is very difficult to independently verify Protonex' business, as it is subject to both military and commercial secrets. This is a sensitive issue in an industry prone to disappointing investors. We believe that Protonex differentiates itself from the pack by its steady stream of revenue earning contracts and 'top draw' strategic partners.

Valuation: Continuing good value on EV/Sales

Protonex is trading at 13.9x our forecasted EV/Sales from our selected peer group of 12 fuel cell stocks. This places the company in the top two by value in the sub-group. The company has the third highest level of forecasted sales in a peer group whose sales forecasts, in the main, have steadily declined over the last few months.

Price	88.5p
Market Cap	£57.4m

Share price graph



Share details

Code	PTX
Listing	AIM
Sector	Electronic & Electrical Equip.
Shares in issue	64.81m

Price

52 week	High	Low
	96p	87p

Balance Sheet as at 31 March 2007

Debt/Equity (%)	N/M
NAV per share (¢)	24.5
Net cash ($m)	14.0

Business

PTX develops and manufactures compact, lightweight, high-performance fuel cell systems for portable power applications between 10W to 1,000W, using PEM and SOFC technologies.

Valuation

	2006	2007e	2008e
P/E Relative	N/M	N/M	N/M
P/CF	N/M	N/M	N/M
EV/Sales	25.0	13.7	8.2
ROE	N/M	N/M	N/M

Geography based on revenues

UK	Europe	US	Other
0%	0%	100%	0%

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Protonex Technology Corporation is a research client of Edison Investment Research Limited

Commercial progress continues apace

New military contract and partnership with Raytheon

The company announced a new contract with Raytheon to develop and commercialise the military version of the 250W PEM fuel cell that incorporates a methanol reformer. Progress on this product continues apace, as size falls, weight declines and performance increases. This autumn, the company will begin construction of the second generation civilian version of this product. It will include innovations gained from the military programme and, critically, manufacturing cost savings to enable the company to produce a profitable product pitched at the right price point for the civilian market. This second generation of Valta™ 250 will be the company's first commercial product, scheduled to go on sale in 2008. The military programmes behind this product have largely funded its development.

UAV programme blasting through the barriers of endurance

Protonex' ProCore™ UAV PEM powered products have achieved new records of operational endurance. Recent testing has demonstrated significant increases in flight times, previously set at five hours. The programme is on track to achieve 10-hour flights with increasing energy densities in the near future. Conventional battery powered UAVs typically only deliver one to three hours of flight time. The success of the ProCore™ programme has opened new opportunities for the makers of UAVs in military and civilian markets. With 10-hour flight duration, UAVs can find new persistent surveillance roles in military reconnaissance, immigration border patrol and commercial pipeline monitoring. These operations would not be possible using conventional battery technology. The ProCore™ programme has become the leading platform of innovation in the company's PEM technology. Advances here are leveraged across the company's other programmes, accelerating improvements in performance, reliability, and size and weight reduction. Again, military contracts have largely funded this programme.

Civilian contract with Cummins

The recently announced contract with Cummins to be its technology partner in developing a SOFC auxiliary power unit (APU) for large (Class 8) trucks is significant on many levels. This is the company's first civilian OEM contract. The partnership with Cummins, a leading global manufacturer of engines, with sales of $11.4bn, shows that Protonex continues to strike deals with strong strategic partners. The Cummins diesel engine has strong recognition in the energy, truck, and marine markets, with customers who will have a natural interest in APUs using fuel cell technology. Finally, this is a SOFC programme, highlighting the value behind the Mesoscopic acquisition.

Reformer technology evolving rapidly

A critical part of the PEM powered 250W military and civilian programs is the development of the methanol reformer. The reformer converts convenient and readily available methanol into hydrogen as fuel for the PEM fuel cell. The company is making significant progress in this sub-system to meet the specific needs of the military market and cost targets for civilian commercialisation.

More SOFC news

The integration of the Mesoscopic acquisition is essentially complete. The first SOFC product identified for commercialisation will be a 75W to 100W system that runs on propane. The project has met its performance targets for September, and continues to make steady progress.

Sensitivities

The fuel cell sector is dogged by a lack of third-party verification; many investors must be feeling particularly disappointed with declining and deferred revenue assumptions from many of the companies in the fuel cell sector. So far, Protonex has continued to match investor expectations. The steady stream of contracts from well known strategic partners (Cummins, Raytheon and Parker Hannifin), and accelerating revenue growth all point to a company that has a serious portfolio of products that will start to become a commercial reality in late 2008 or early 2009.

Protonex, along with many other fuel cell companies, is exhibiting at the Grove fuel cell exhibition at the Queen Elizabeth II conference centre in London from 25–27 September. We urge investors to attend, as it will be a significant opportunity to compare progress across the companies operating in this sector. Protonex will be demonstrating the Valta™ 250, which ran continuously at the Hanover fair last spring, and a number of other products.

Valuation

The table below illustrates that Protonex continues to be relatively inexpensively priced on our measure of EV/Sales across our selection of fuel cell stocks. At 13.9x EV/S the company ranks second in our peer group of 12. The medium value of the sub-group is 82.7x. Investors should note that Protonex has the group's third highest level of forecasted revenue.

Exhibit 1: Enterprise value/sales analysis of selected fuel cell stocks

Note: Acta, Polyfuel, & Ceramic report in Euros, US Dollars and Australian Dollars respectively; we have converted these values into Sterling at the rates below. Priced at the 20 September 2007.

Name	Tick	FY	LS 20/9	Shares O/S	Mkt Cap	Debt + Min	Adj Cash T+1	Est Ent Val 07	Est Sales T+1	EV/S
London			p	£m			£000s			x
Acta	ACTA	Dec	93.5	36.0	33,655	825	2,311	32,169	350	92.0
Polyfuel	PYF	Dec	34.0	57.4	19,504	0	350	19,154	497	38.6
ITM Power	ITM	Apr	111.0	102.1	113,330	0	27,971	85,359	77	1,108.6
Protonex Tech	**PTX**	**Sep**	**88.5**	**64.5**	**57,038**	**0**	**17,130**	**39,908**	**2,880**	**13.9**
Voller	VLR	Jun	21.5	23.0	4,945	0	2,247	2,698	167	16.2
CMR	CMF	Dec	69.5	20.3	14,112	0	7,921	6,191	51	121.4
Oxford Catalysts	OCG	Dec	120.0	37.3	44,809	101	12,814	32,096	128	250.8
Ceres Power	CWR	Jun	311.8	59.7	185,993	0	6,691	179,302	300	597.7
Ceramic	CFU	Jun	33.5	309.7	103,763	96	-6,085	109,944	1,498	73.4
NASDAQ			$	$m			$000s			
Medis Tech.	MDTL	Dec	10.7	35.0	374,001	52,686	11,021	415,666	7,100	58.5
Ballard Power	BLDP	Dec	4.4	114.6	499,656	15,330	150,953	364,033	59,139	6.2
Millennium Cell	MCEL	Dec	0.6	56.1	33,648	5,715	1,942	37,421	380	98.5

Currency Conversions	$/£	$2.01	Adj Cash T+1 = last reported cash less forecast cash burn for fiscal year
	€/£	€ 1.43	Est Ent Val 07 = market cap + last reported debt and minorities - adj cash
	A$/£	$2.34	Est Sales T+1 = forecast next fiscal year revenues

Source: Edison Investment Research & Bloomberg consensus

Exhibit 2: Financials

$'000s	2005	2006	2007e	2008e
Year-ending September				
PROFIT & LOSS				
Revenue	1,757	2,316	5,800	11,000
Cost of Sales	0	0	(1,420)	(3,630)
Gross Profit	1,757	2,316	4,380	7,370
EBITDA	(2,331)	(5,569)	(8,710)	(9,303)
Operating Profit (before GW and except.)	(2,374)	(5,674)	(9,000)	(10,000)
Goodwill Amortisation	0	0	0	0
Exceptionals	1	0	(500)	(500)
Other	0	0	0	0
Operating Profit	(2,373)	(5,674)	(9,500)	(10,500)
Net Interest	150	490	1,170	1,300
Profit Before Tax (norm)	(2,224)	(5,184)	(7,830)	(8,700)
Profit Before Tax (FRS 3)	(2,223)	(5,184)	(8,330)	(9,200)
Tax	(0)	(0)	0	0
Profit After Tax (norm)	(2,225)	(5,185)	(7,830)	(8,700)
Profit After Tax (FRS3)	(2,223)	(5,185)	(8,330)	(9,200)
Average Number of Shares Outstanding (m)	3.8	14.1	52.6	63.0
EPS - normalised (c)	(57.9)	(36.7)	(14.9)	(13.8)
EPS - FRS 3 (c)	(57.9)	(36.7)	(15.8)	(14.6)
Gross Margin (%)	100.0%	100.0%	75.5%	67.0%
EBITDA Margin (%)	(132.6%)	(240.4%)	(150.2%)	(84.6%)
Operating Margin (before GW and except.) (%)	(135.1%)	(245.0%)	(155.2%)	(90.9%)
BALANCE SHEET				
Fixed Assets	275	430	13,600	14,300
Intangible Assets	0	0	11,500	11,000
Tangible Assets	275	430	2,100	3,300
Investment in associates	0	0	0	0
Unquoted investments	0	0	0	0
Current Assets	9,833	19,450	35,785	26,378
Stocks	0	105	272	696
Debtors	293	362	1,050	1,959
Cash	9,507	18,707	34,463	23,723
Other	32	276	0	0
Current Liabilities	(171)	(699)	(1,471)	(2,387)
Creditors	(93)	(340)	(1,111)	(2,027)
Other creditors	(78)	(360)	(360)	(360)
Short term borrowings	0	0	0	0
Minority interests	0	0	0	0
Long Term Liabilities	0	0	0	0
Long term borrowings	0	0	0	0
Other long term liabilities	0	0	0	0
Net Assets	9,938	19,181	47,914	38,291
CASH FLOW				
Operating Cash Flow	(2,542)	(4,704)	(9,114)	(10,040)
Net Interest	150	490	1,170	1,300
Tax	0	0	0	0
Capex	(126)	(256)	(1,800)	(2,000)
Acquisitions/disposals	0	0	0	0
Financing	10,967	13,670	25,500	0
Dividends	0	0	0	0
Other	0	0	0	0
Net Cash Flow	8,449	9,200	15,756	(10,740)
Opening net debt/(cash)	(1,058)	(9,507)	(18,707)	(34,463)
HP finance leases initiated	0	0	0	0
Other	0	0	(0)	0
Closing net debt/(cash)	(9,507)	(18,707)	(34,463)	(23,723)

Source: Company accounts/Edison Investment Research