

25th June 2007

PROTONEX TECHNOLOGY CORPORATION

Interim Results

Unaudited

Six Months Ended 31 March 2007

DATELINE: SOUTHBOROUGH, MA; Protonex Technology Corporation (AIM: PTX) ("Protonex" or the "Company"), a leading provider of advanced fuel cell power systems for sub-kilowatt portable, remote and mobile applications today announces its interim results for the six months ended 31 March 2007.

H1 2007 Highlights

- Revenues of \$2.1 million in the half year period ended 31 March 2007, a 134% increase compared to the six months ended 31 March 2006
- Won largest contract to date - a \$3.5 million product development programme from US Army
- Product deliveries for evaluation to US Air Force, US Army, and US Special Operations Command
- Advanced unmanned aerial vehicle (UAV) propulsion system and continued collaboration with leading UAV supplier
- Strengthened partnership with Northrop Grumman with product delivery
- Strong financial position with more than \$14 million in cash and cash equivalents
- Appointed new Vice President of Product Engineering to speed product development

Post Period End Highlights

- Acquired solid oxide fuel cell and reformer technology leader Mesoscopic Devices
- Raised \$27.7 million (in gross proceeds) with secondary placing of new

common shares on the AIM market

- Launched the Company's first commercial, reformer-based fuel cell product

H1 Results Summary

	Six months ended 31 March 07	Six months ended 31 March 06
Revenues	\$2,133,228	\$909,731
Operating expenses	\$6,123,900	\$3,136,262
Net profit/(loss)	\$(3,537,713)	\$(2,053,737)
Net cash flow	\$(4,693,215)	\$(2,016,383)

Scott Pearson, Chief Executive Officer, commented:

"We have performed strongly during the reported period and are pleased with the growth of the company and contract wins, which further verify the strength of our technology. Our recent acquisition of Mesoscopic Devices will allow us to move our advanced technology to market quickly and build on our position in the fuel cell market. We look forward to investing in the development of our products and benefiting from the commercial and military opportunities that will be available to us going forward."

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LETTER FROM CHAIRMAN AND FROM CHIEF EXECUTIVE

Introduction

Significant developments took place at Protonex in the half year ended 31 March 2007 that expanded the Company's product portfolio, increased its technical capabilities, and strengthened its position as a portable fuel cell industry leader. Several major milestones, including development of a functional reformer system, the development of the Company's first commercial product and a major military programme award, occurred in this half year period, preparing the Company for accelerated product development and a ramp-up to volume manufacturing.

These and other milestones are important steps in Protonex' development and have provided the Company with the technical and managerial resources to build a strong foundation as a product development and marketing organisation. Protonex looks forward to continuing to deliver on its commitments to its customers, employees and shareholders.

Financial Review

Revenues for the six months ended 31 March 2007 totalled \$2.1 million, of which \$1.6 million were revenues from US Government sponsored development contracts. In comparison, revenues during the six months ended 31 March 2006 were \$0.9 million, reflecting a 134% increase. Revenues from US Government sponsored development contracts for the six months ended 31 March 2006 were \$0.9 million.

As part of our investment programme which is focusing on the future growth of the business, operating expenses have risen by 95% from \$3.1 million to \$6.1 million increasing the net loss for the six months ended 31 March 2007 to \$3.5 million from the net loss of \$2.1 million in the six months ended 31 March 2006. The increase in operating expenses was primarily the result of the significant expansion in the size of the technical and manufacturing organisations, increased spending on research and development programmes, expansion of the Company's Southborough facility, increased stock-based compensation costs, and increased expenses associated with the Company's status as a public entity effective July 2006.

The Company's financial position is strong with more than \$14 million in cash and cash equivalents at 31 March 2007 (see section below detailing additional cash raised in a subsequent event). The cash used in operating activities during the six months ended 31 March 2007 was \$3.9 million. Cash outflows attributable to capital expenditures totalled \$0.8 million during the six months ended 31

March 2007 and, with cash inflows from the exercise of stock options of \$5,597, net cash outflows for the six months ended 31 March 2007 was \$4.7 million.

Technical Review

Protonex' technology portfolio was expanded greatly by the acquisition on 1 April 2007 of Mesoscopic Devices, a leader in solid oxide fuel cells systems and reformers (see below). Protonex also made notable progress in critical areas of its existing and developing technology.

Protonex evolved its core fuel cell stack technology into its sixth generation in the half year period. The move from Generation 5 to Generation 6 continues to improve manufacturability of the stacks by reducing part costs, manufacturing cycle time and overall costs. With this advanced stack manufacturing technology, Protonex has improved all key metrics including size, weight, cost and consistency.

In addition, Protonex made significant progress in its selection, design, assembly and integration of balance of plant components, which will further reduce overall size, weight and cost as the Company develops its suite of products. Strategic manufacturing partner, Parker Hannifin, continues to play an important role in the optimisation of Protonex' modular design and assembly of balance of plant components, providing Protonex with the benefits of a global network of subsystem integration experts.

Protonex' chemical hydride fuelling subsystems advanced significantly in the half year period, allowing the Company to move forward with two chemical hydride-based products. The ProPack™ C50 and the ProCore™ UAV, both utilising Millennium Cell's sodium borohydride fuelling technology for high energy density, were delivered to major customers and successfully demonstrated and tested. Future generations of the sodium borohydride fuelling subsystem are being developed and evaluated in conjunction with Millennium Cell. This effort is being supported by several military programmes, with the expectation that future generations of the fuelling subsystem will increase overall system performance metrics.

Protonex' methanol reformer development programme also met with major success in the half year period, with the development of a functional methanol reformer completed in January 2007. This effort was aided by the addition of Dr. David Edlund, a recognised expert in fuel reforming and hydrogen purification technology, to the Protonex team as Vice President, Reformer Development in

March 2006. Dave has been active in the fuel cell industry since 1992, holds 53 issued US patents, and previously co-founded IdaTech, LLC, a leader in the development of fuel processors and integrated PEM fuel cell systems. Dave and other fuel reforming experts at Protonex rapidly developed the Company's fuel reforming technology, and in April 2007 a major milestone was met with the launch of the Valta™ M250, the Company's first reformer-based fuel cell product. This system, targeted primarily at commercial markets, is able to process readily available methanol into a hydrogen-rich gas which is then converted by the fuel cell system into electrical power. Commercialisation of this current technology is progressing well, with additional technology developments underway.

Reformer-based fuel cell systems that run on widely distributed fuels such as methanol, are easy to refuel and can operate safely in a variety of indoor and outdoor conditions. These systems are expected to enable wider adoption of fuel cell products in the marketplace without requiring access to hydrogen or other specialty fuel sources. This first product targets commercial applications that require clean, quiet, reliable portable power such as boats, recreational vehicles, emergency equipment, and remote power. With significant funding from the US Army, Protonex is developing a rugged military version of the reformed methanol product for use by the Army, Air Force, Special Operations Command and Marines. This product will build on much of the current technology and initially target military applications such as field battery charging and auxiliary power. Protonex is also laying the groundwork for utilising other fuels, including propane, military diesel and biodiesel, in future fuel cell power systems. This effort will be greatly accelerated by the acquisition of Mesoscopic Devices and its advanced technologies.

Market and Product Developments

The recent launch of the Company's first reformer-based product has expanded the Company's array of products in various stages of development or testing, which now include:

- ProPack™ C50: 50-watt PEM sodium borohydride- fuelled military man-portable power system
- ProCore™ UAV: 200-watt sodium borohydride- fuelled UAV propulsion system
- Valta™ M250: 250-watt PEM reformed methanol- fuelled commercial auxiliary power unit
- Rugged power manager for use with the ProPack™ C50 for multiple military

applications

- 75-watt SOFC propane-fuelled multi-purpose portable power system (via Mesoscopic Devices)
- 250-watt PEM reformed methanol-fuelled military auxiliary power unit
- 250-watt SOFC clean kerosene-fuelled multi-purpose portable power system (via Mesoscopic Devices)

During the period, Protonex made significant progress in its drive to deliver these fuel cell products to military and commercial markets in which they offer unique value.

Protonex delivered additional units of its ProPack™ C50 military man-portable power system to the US Air Force, US Army, and US Special Operations including a delivery of 20 units to the Air Force Research Laboratory (AFRL), for advanced testing. The ProPack™ C50 is designed to meet the military's needs for high-performance man-portable power for equipment such as radios, laser target designators, GPS and Toughbooks. The complete power system with fuel is compact and lightweight, supplying two to three times the energy density of primary lithium batteries currently used by the military for soldier power. Protonex is currently investigating versions of this product that will target commercial and industrial applications, such as emergency communications, specialty computing, and portable electronics including audio visual, scientific and medical equipment.

Also in the half year period, Protonex and its strategic partner, Northrop Grumman Corporation, completed a \$1 million programme for the US Air Force with delivery of a combined powering system for the dismounted soldier. This unique fuel cell-based system provides a lightweight, efficient power solution that serves as a single power source for the various targeting, communications and other sensor equipment used by airmen on the battlefield. This system, which combines the Protonex ProPack™ C50 with a customised power manager and battery pack, is designed to save space and weight by eliminating the need for soldiers to carry multiple power sources to power multiple devices. The team's work under this contract advanced the hybridisation of Protonex' fuel cell system with battery technology to increase the powering capabilities of the system. This delivery represents an important milestone in the productisation of the ProPack™ C50 and Protonex' partnership with Northrop Grumman Laser Systems.

Protonex made significant progress on its third programme with the AFRL for UAV

propulsion during the period. This work broadened the capabilities of the ProCore™ UAV, a system designed to extend flight times for small UAVs by providing up to four times the energy density of advanced batteries. Also offering a very low noise profile, this system addresses the rapidly growing segment of electric military and commercial UAVs designed for specialty missions such as persistent surveillance, chemical-biological monitoring and border patrol. Protonex is currently in collaboration with a leading small UAV systems provider and has scheduled a test flight to take place in the spring of 2007. In addition, Protonex was also awarded a programme in the half year period with the US Navy for joint development of a UAV system containing a Protonex fuel cell power system. Protonex has already delivered four UAV power systems under this programme. The Company anticipates future programme awards for further development of UAV propulsion systems and UAV systems containing Protonex fuel cell power systems.

Delivering on its September 2006 announcement to introduce a line of reformer-based fuel cell products to specifically target commercial markets in mid-2007, Protonex launched the first of these products, the Valta™ M250, in April 2007 at the Hannover Fair in Hannover, Germany. This public demonstration marked two major milestones for Protonex: the launch of the Company's first commercial product and the introduction of the Company's first reformer-based product. The Valta™ M250 is a 250-watt power system that combines a high-performance proton exchange membrane (PEM) fuel cell system with an integrated methanol reformer. The system is designed to target commercial applications that require quiet, reliable portable power such as boats, recreational vehicles, emergency equipment, and remote power. Further product enhancements are currently underway at Protonex, and the Company expects to begin marketing the product to specific OEMs for initial evaluation during the balance of 2007.

In March, Protonex received a \$3.5 million contract with the US Army Research Office to develop a 250-watt portable fuel cell power source for several military applications. The system will include a methanol reformer and represents a military adaptation of the 250-watt commercial Valta™ M250 unit. This contract is the largest Protonex has received to date, and brings the total programme value of the Company's secured government development or joint development contracts to more than \$12 million.

With this series of product development achievements, Protonex is well-positioned to engage a range of commercial markets as it continues to make successful deliveries to its military customers. The Company is readying its operations to produce these products for commercial sales and is eager to enter its next stage of growth.

Subsequent Events: Acquisition of Mesoscopic Devices and Secondary Financing

Two important events were initiated during this reporting period but closed days after the close of the period. Effective on 1 April 2007, Protonex acquired Mesoscopic Devices, an industry leader in solid oxide fuel cell (SOFC) technology, fuel reforming, and desulphurisation systems. Based in Broomfield, Colorado, Mesoscopic Devices had focused primarily on developing fuel cell systems in the ten to 1,000-watt power range since its inception in 1998. Winning more than \$13 million in cumulative contracts with US military and government agencies, including the US Army, US Navy, DARPA and NASA, Mesoscopic Devices developed two platforms of fully integrated power systems based on SOFC and direct methanol fuel cell (DMFC) technologies, including one of the first portable SOFCs operating on liquid fuels.

The acquisition was Protonex' first strategic investment since its admission to the AIM market of the London Stock Exchange in July 2006. The acquisition has already begun to deliver considerable short-term advantages, and the Directors expect the combined entity to realize many additional long-term synergies and benefits. Specifically, these include:

- **Fuel Diversity:** SOFC technology enables the utilisation of propane, gasoline, diesel and JP8 as input fuels for future Protonex fuel cell systems. These fuels are widely available and optimal for many commercial, consumer and other applications.
- **Broader Markets:** Based on the relative merits (operating characteristics, input fuels, power density and efficiency) of PEM and SOFC technologies, Protonex believes that products based on both will co-exist in the marketplace. Protonex' ability to provide power solutions based on each of these technologies will dramatically increase the total market addressed by its products.
- **Expanded Intellectual Property Portfolio:** The acquisition has expanded Protonex' technology and intellectual property portfolio with complementary SOFC and DMFC systems as well as key reformer and balance of plant components currently utilised across the fuel cell industry.
- **Enhanced Technical Capability:** Mesoscopic Devices has brought an outstanding team of scientists and engineers to assist in accelerating the development of core technologies and product platforms on both PEM and SOFC

technologies.

- **Accelerated Product Development:** Based on Protonex' proven track record and established product development, manufacturing, sales and marketing infrastructure, Protonex expects to accelerate SOFC product initiatives begun at Mesoscopic Devices.
- **More Customers and Contracts:** Mesoscopic Devices brings new customer relationships, several ongoing government contracts, and future programme revenue potential to Protonex.

The combination of Protonex and Mesoscopic Devices has allowed Protonex to expand its technology portfolio to include multiple fuel cell platforms and fuelling options, as well as important subsystems of finished reformer-based products. Mesoscopic Devices has introduced impressive and complementary technical capabilities into the Company, and the Directors believe that Protonex is now the only portable power company in the world with the ability to offer customers the benefits of both PEM and SOFC technologies.

Coincident with the acquisition, Protonex completed a secondary placing of new common shares to raise an additional \$27.7 million (£14.1 million) before expenses. Lead investors included Goldman Sachs and Parker Hannifin, an existing strategic partner of the Company. The proceeds of this secondary financing were used to fund acquisition consideration, and will continue to fund joint operating costs going forward. These include continued product commercialisation and marketing, the implementation of volume manufacturing with partners, further advancement of fuel cell technologies and working capital.

Outlook

With the growth and progress that occurred in the period as well as the acquisition of Mesoscopic Devices and a successful secondary placing of common shares, Protonex is now very well positioned in terms of financial, technical and human resources. The funds from the secondary placing are enabling Protonex to fund further increases in commercial product development, as well as further advancements in manufacturing capabilities and marketing strategies.

Now with 85 employees and approximately 41,000 square feet of office, lab and production facilities, divided between its Southborough, Massachusetts headquarters and its Broomfield, Colorado facility, Protonex possesses a broader

set of resources to meet the challenges ahead. In addition, our strategic partnerships with Parker Hannifin Corporation, Northrop Grumman Corporation and Millennium Cell Inc. continue to strengthen; and newly forming corporate and technical collaborations promise great things for both the military and commercial sectors of our business.

We would like to take this opportunity to thank all the employees and key stakeholders in Protonex for their continued dedication and commitment to the Company. We look forward to your support in building on the success of the company to date.

Harry Fitzgibbons
Chairman

Scott Pearson
Chief Executive Officer

25 June 2007

This announcement includes statements which are, or may be deemed to be, "forward-looking statements". All statements other than statements of historical facts included in this announcement, including, without limitation, those regarding Protonex' financial position, business strategy, plans and objectives of management for future operations (including development plans and objectives relating to Protonex' products and services) are forward-looking statements. By their nature, such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, financial condition, performance or achievements of Protonex to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements.

Forward-looking statements may and often do differ materially from actual results. Any forward-looking statements in this announcement speak only as at the date of this announcement and Protonex disclaims any obligation to update such forward-looking statements. Such forward-looking statements are subject to risks relating to future events and other risks, uncertainties and assumptions relation to Protonex' operations, results of operations, growth strategy and liquidity.

PROTONEX TECHNOLOGY CORPORATION (A DEVELOPMENT STAGE COMPANY)

BALANCE SHEETS

	(Unaudited)	
	31 March	30 September
Note	2007	2006
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Assets		
Current assets:		
Cash and cash equivalents	\$14,013,991	\$18,707,206
Accounts receivable	7 1,221,449	361,637
Inventory	270,322	104,863
Prepaid expenses and other current assets	399,601	276,400
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Total current assets	15,905,363	19,450,106
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Property and equipment, net	1,121,838	401,389
Other assets	4 190,426	28,642
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Total assets	\$17,217,627	\$19,880,137
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Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	6 \$658,794	\$339,770
Accrued expenses	651,751	248,580
Deferred revenue	-	110,990
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Total current liabilities	1,310,545	699,340
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Commitments and contingencies	4, 5	
Stockholders' equity:		
Common stock, \$0.005 par value; 85,000,000 shares authorised; 43,397,477 and 43,344,950 shares issued and outstanding	3 216,987	216,725
Additional paid-in capital	29,629,891	29,392,430
Deferred compensation	3 (61,278)	(87,553)
Deficit accumulated during the development stage	(13,878,518)	(10,340,805)
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Total stockholders' equity	15,907,082	19,180,797
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Total liabilities and stockholders' equity	\$17,217,627	\$19,880,137
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See accompanying notes to the financial statements.

PROTONEX TECHNOLOGY CORPORATION (A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF OPERATIONS (UNAUDITED)

		Period from 6 October 2000 (inception) to	Six months ended 31 March	
	Note	31 March 2007	2007	2006
Third-party revenues	7	\$7,226,206	\$2,133,228	\$909,731
Related-party revenues		307,000	-	-
Total revenues		7,533,206	2,133,228	909,731
Operating expenses:				
Research and development	1	13,888,198	4,252,170	2,020,535
Sales and marketing		1,672,692	364,778	251,892
General and administrative		6,931,164	1,506,952	863,835
Total operating expenses		22,492,054	6,123,900	3,136,262
Loss from operations		(14,958,848)	(3,990,672)	(2,226,531)
Other income (expense):				
Interest income		1,090,439	427,848	173,250
Interest expense		(43,897)	-	-
Miscellaneous income		12,718	-	-
Gain on disposal of fixed assets		23,806	25,111	-
Total other income, net		1,083,066	452,959	173,250
Loss before provision for income taxes (2,053,281)		(13,875,782)	(3,537,713)	
Provision for income taxes		(2,736)	-	(456)
Net loss		\$(13,878,518)	\$(3,537,713)	\$(2,053,737)
Basic and diluted net loss per common share	2		\$(0.08)	\$(0.43)
Weighted average common shares outstanding:				
Basic and diluted		42,390,767	4,806,704	

See accompanying notes to the financial statements.

PROTONEX TECHNOLOGY CORPORATION (A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

PERIOD FROM 30 SEPTEMBER 2006 TO 31 MARCH 2007

Total Equity	Additional		Paid-In Capital	Deficit Accumulated during the Deferred Compensation	Development Stage
	Total Common Shares	Stock Par Value			
Balance, 30 September 2006 \$(10,340,805)	43,344,950	\$19,180,797	\$216,725	\$29,392,430	\$(87,553)
Stock options exercised 5,597	52,527	262	5,335	-	-
Amortisation of deferred compensation earned 26,275	-	-	-	26,275	-
Stock-based compensation 232,126	-	-	232,126	-	-
Net loss	-	-	-	(3,537,713)	(3,537,713)
Balance, 31 March 2007 \$(13,878,518)	43,397,477	\$15,907,082	\$216,987	\$29,629,891	\$(61,278)

See accompanying notes to the financial statements.

PROTONEX TECHNOLOGY CORPORATION (A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF CASH FLOWS (UNAUDITED)

March

Period from
6 October 2000 Six months ended 31

	(inception) to 31 March 2007	----- 2007	2006

Cash flows from operating activities:			
Net loss	\$(13,878,518)	\$(3,537,713)	
\$(2,053,737)			
Reconciliation of net loss to net cash used in operating activities:			
Depreciation and amortisation	282,924	100,533	
36,838			
Non-cash expense for services	4,080	-	-
Gain on disposal of fixed assets	(23,806)	(25,111)	
-			
Non-cash interest expense	38,269	-	-
Stock-based compensation	1,053,962	258,401	
104,909			
Changes in:			
Accounts receivable	(1,221,449)	(859,812)	
(185,861)			
Inventory	(270,322)	(165,459)	
(63,925)			
Prepaid expenses and other current assets	(399,601)	(123,201)	
(59,844)			
Other assets	(190,426)	(161,784)	
(2,683)			
Accounts payable	658,794	319,024	
249,236			
Accrued expenses	651,751	403,171	
36,052			
Deferred revenue	-	(110,990)	-

Net cash used in operating activities	(13,294,342)	(3,902,941)	
(1,939,015)			

Cash flows from investing activities:			
Additions to property and equipment	(1,380,956)	(795,871)	
(93,314)			

Net cash used in investing activities	(1,380,956)	(795,871)	
(93,314)			

Cash flows from financing activities:			

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		13,808,521	
5,597	15,946		
Common stock repurchased	(3,610)		-
-			

Net cash provided by financing activities		28,689,289	5,597
15,946			

Net increase/(decrease) in cash and cash equivalents		14,013,991	
(4,693,215)	(2,016,383)		
Cash and cash equivalents, beginning of period		-	18,707,206
9,507,443			

Cash and cash equivalents, end of period		\$14,013,991	
\$14,013,991	\$7,491,060		

Supplemental cash flow information:			
Income taxes	\$2,736	\$-	\$456
Deferred compensation in connection with the issuance of restricted stock			241,838
-	-		
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		-
			-

See accompanying notes to the financial statements.

NOTES TO THE 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. 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 is headquartered in Southborough, Massachusetts.

On 16 May 2006, the Company effected a two-for-one split of the issued and outstanding shares of Common Stock and changed the par value of the Common Stock from \$0.01 to \$0.005 per share. All common share and per common share amounts in the accompanying financial statements prior to 16 May 2006 have been retroactively adjusted to give effect to the stock split.

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. The total consideration paid by the Company at closing for the Mesoscopic shares was valued at approximately \$10.6 million. The consideration consisted of cash and the issuance of new shares of Common Stock of the Company. The cash component of the consideration was \$3.2 million paid at the closing but subject to a working capital adjustment. The cash payment included \$0.5 million deposited into an escrow account for twelve months to cover indemnification claims. The stock component was comprised of 4,082,385 shares of Common Stock of the Company which are subject to various lock-up restrictions between six and 30 months in duration. In addition, the purchase price included additional contingent consideration consisting of 1,020,598 shares of Common Stock of the Company which are issued but held in escrow subject to meeting certain unit sale milestones. Contingent consideration, if any will be recorded as an additional cost of the purchase when the contingency is resolved. Mesoscopic's results of operations will be included in the Company's consolidated financial statements beginning 1 April 2007.

Basis of Presentation

The financial information has been prepared in accordance with accounting principles generally accepted in the United States of America "US GAAP". The Company's primary market during the development stage has been government agencies of the United States of America.

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 2006 which are contained in the Company's Annual Report covering the fiscal year ended 30 September 2006.

The financial information has been prepared on the basis that the Company will continue as a going concern for the foreseeable future.

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 2006 and have not changed materially as of 31 March 2007.

Research and Development Expense

Cost 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 2007 and 2006 were \$4,252,170 and \$2,020,535, respectively.

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 (SFAS 123R), "Share-Based Payment", 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 Statements of Operations:

	Six Months Ended 31 March	
	2007	2006
Manufacturing	\$1,530	\$-
Research and development	140,011	39,508
Sales and marketing	47,767	13,865
General and administrative	42,818	21,306
Total share-based compensation expense	\$232,126	\$74,679

At 31 March 2007 there is \$1,155,741 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 3.28 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 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 six months ended 31 March 2007 and 2006:

	2007	2006
Expected volatility	78.6%	76.1%
Expected dividend yield	0.0%	0.0%
Expected risk-free interest rate	4.35% - 4.57%	4.1%
Expected term of options	3.73 - 10 years	5 years
Maximum contractual term	10 years	10 years
Estimated forfeitures	12.8%	15%

Stock Price

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

All options issued subsequent to 2 July 2006 were issued 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" judgemental. 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 as needed.

Note 2 - Net Loss Per Share

The components of basic and diluted loss per share for the six months ended 31 March 2007 and 2006 are as follows:

	2007	2006
Net loss, basic and diluted	\$(3,537,713)	\$(2,053,737)
Average outstanding shares of common stock	42,390,767	4,806,704
Basic and diluted net loss per share	\$(0.08)	\$(0.43)

All common stock equivalents were anti-dilutive for the six months ended 31 March 2007 and 2006. Incremental common shares not included in the denominator of the diluted earnings per share calculation due to their anti-dilutive nature are as follows:

	2007	2006
Stock options	5,082,056	3,716,716
Warrants	517,500	-
Unvested restricted stock	878,321	2,604,910
Issuable upon conversion of preferred stock	-	25,276,704
	6,477,877	31,598,330

Note 3 - Common Stockholders' Equity

Restricted Stock

A summary of the Company's restricted stock activity for the six months ended 31 March 2007 is presented in the table below:

	2007
Outstanding 1 October	1,339,525
Converted to common	(461,204)

Outstanding 31 March	878,321
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During the six months ended 31 March 2007 a total of 461,204 restricted shares vested, respectively. As of 31 March 2007 there were 878,321 restricted shares unvested. The remaining unvested shares will vest in future years as follows:

Year	Number of shares
2007	348,463
2008	333,764
2009	196,094
	878,321

Common Stock

In connection with the July 2006 AIM admission, the Company granted Canaccord Adams Limited, its nominated adviser and broker in the admission, a fully vested warrant to purchase 517,500 shares of the Company's common stock at an exercise price equal to the original AIM admission price of UK 85 pence per share (the "Canaccord Warrant"). The Canaccord Warrant has a term of 18 months from the date of the AIM admission. As of 31 March 2007 no portion of the Canaccord Warrant had been exercised.

As of 31 March 2007 and 30 September 2006 there were 43,397,477 and 43,344,950 common shares, respectively, issued and outstanding, of which 42,519,156 and 42,005,425, respectively, were unrestricted and 878,321 and 1,339,525, respectively, were restricted.

On 3 April 2007 the Company closed the acquisition of Mesoscopic effective as of 1 April 2007 and completed an equity financing. A summary of the Company's common shares issued and outstanding as of 3 April 2007 is presented in the table below:

	Number of shares
Issued and outstanding - 31 March 2007	43,397,477

New shares issued upon completion of equity financing	16,000,000
New shares issued upon completion of Mesoscopic acquisition	4,082,385

Issued and outstanding - 03 April 2007	63,479,862

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 table of issued and outstanding shares as of 3 April 2007.

Deferred Compensation

The Company records the aggregate difference between the deemed fair value of the shares at the time of purchase and the purchase price as deferred compensation. The Company recognises the compensation expense ratably during the vesting period of the underlying common stock. The Company recognised \$26,275 and \$30,230 of compensation expense during the six months ended 31 March 2007 and 2006, respectively. As of 31 March 2007 and 30 September 2006 there was \$61,278 and \$87,553 of deferred compensation expense to recognise in future periods, respectively.

Stock Options

In October 2003, the Company's Board of Directors approved the 2003 Stock Incentive Plan, which provides for the granting of incentive stock options (ISO's) and non-qualified stock options to employees, officers, Directors, advisers and consultants of the Company. As of 31 March 2007, the Company has an aggregate of 8,148,395 shares of common stock reserved pursuant to the plan.

A summary of the status of all of the Company's stock options for the six months ended 31 March 2007 is presented below:

	Weighted average exercise shares	Weighted average remaining price per share	contractual life	Aggregate intrinsic value

Outstanding - 1 October 2006	4,758,532	\$0.456		
Granted	492,000	1.812		

Exercised	(52,527)	0.107			
Forfeited	(115,949)	0.370			

Outstanding - 31 March 2007	5,082,056	\$0.593	8.53		\$6,348,442

Exercisable - 31 March 2007	2,713,582	\$0.457	8.13		\$3,754,879

Six months ended 31 March

	2007	2006

Weighted average grant date fair value of options granted per share		\$1.267
	\$0.072	

Total intrinsic value of share options exercised	\$90,287	\$15,433

A summary of the Company's options outstanding and exercisable as of 31 March 2007 is presented in the table below:

Exercise price	Options outstanding			Options exercisable		
	Number outstanding	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number exercisable	Weighted average exercise price	
\$0.000 - \$0.075	725,943	6.85	\$0.075	650,393	\$0.075	
\$0.076 - \$0.090	945,700	7.64	0.090	549,234	0.090	
\$0.091 - \$0.185	1,837,696	8.79	0.185	887,902	0.185	
\$0.186 - \$0.735	278,000	9.10	0.735	136,086	0.735	
\$0.736 - \$1.790	1,142,717	9.59	1.787	489,717	1.790	
\$1.790 - \$1.880	152,000	9.79	1.880	250	1.880	

	5,082,056	8.53	\$0.593	2,713,582	\$0.457	

A summary of the status of the Company's non-vested options as of 31 March 2007 and changes during the year then ended is presented in the table below:

Weighted

	Options	average grant date fair value	
Non-vested at 1 October 2006		2,410,658	\$0.278
Granted	492,000	1.267	
Vested	(478,434)	0.175	
Forfeited	(55,750)	0.328	
Non-vested at 31 March 2007		2,368,474	\$0.503

The total fair value of stock options that vested during the six months ended 31 March 2007 was \$83,635.

Note 4 - Commitments

Leases

The Company conducts its operations in leased facilities under operating lease agreements. The rent and related expenses under these agreements totalled \$136,488 and \$66,338 for the six months ended 31 March 2007 and 2006, 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 2007 and 30 September 2006, the Company maintained deposits totalling \$46,199 and \$28,642, respectively, as security deposits related to all operating lease agreements.

In connection with the acquisition of Mesoscopic, effective on 1 April 2007 (see note 1), the Company will assume the operating lease agreement in Broomfield, Colorado. The lease originally commenced on 1 March 2003 and extends through 31 May 2009. The Company is required to pay base rent, tax, common area maintenance charges and maintain a security deposit of \$7,525 related to this agreement.

Minimum future payments required under operating leases are as follows:

For the
years ended
30 September

2007	\$153,525
2008	378,538
2009	345,604
2010	271,945
2011	271,945
2012	67,986

Total	\$1,489,543

Employment Agreements

In February 2007, the Company entered into an employment agreement with Mr. Robert Barry, Vice President of Product Engineering. The agreement provides for a base salary and a performance bonus as determined by the Board of Directors payable in cash, common stock or stock options. The employment agreement provides for six months' accelerated vesting of stock options and restricted stock held by Mr. Barry and two months' severance upon termination of employment by either party upon the occurrence of certain events, as defined in the agreement.

In October 2006, the Company entered into a full-time employment agreement with Dr. David Edlund, Vice President, Reformer Development. The agreement provides for a base salary and a performance bonus as determined by the Board of Directors payable in cash, common stock or stock options. The employment agreement provides for six months' accelerated vesting of stock options and restricted stock held by Dr. Edlund upon termination of employment by either party upon the occurrence of certain events, as defined in the agreement. The agreement may be terminated by either party upon 30 days' written notice and provides three months' severance to Dr. Edlund if terminated by the Company prior to the expiration of the agreement and extended non-competition protection to the Company, as defined in the agreement. The agreement provides for the assignment of certain intellectual property rights previously developed by Dr. Edlund, in exchange for a change in the vesting schedule of certain stock options previously granted by the Company. The agreement also provides for performance based payments, as defined in the agreement.

In connection with the acquisition of Mesoscopic, effective on 1 April 2007 (see

note 1), the Company entered into employment agreements with Dr. Jerry Martin, its Vice President, SOFC Systems Development and Ms. Christine Martin its Director, SOFC Programmes. These agreements provide for a base salary and a performance bonus as determined by the Board of Directors payable in cash, common stock or stock options. The employment agreements provide for termination of the restriction period for 329,584 and 405,030 restricted shares held by Dr. Martin and Ms. Martin, respectively and two months' severance upon termination of employment by either party upon the occurrence of certain events, as defined in the agreement.

Note 5 - Pending Litigation

In January 2005, following the decision by the Company not to extend the term of an employment contract with Mr. Richard Formato, a former employee, officer and founder of the Company, Mr. Formato brought a claim in a Massachusetts state court alleging, among other things, breach by the Company of his employment agreement and a prior consulting agreement. Mr. Formato claimed approximately \$170,000 in respect of unpaid consultancy services and severance entitlements, an award of attorneys' fees and costs, rescission of an invention and non-disclosure agreement, which relates to certain intellectual property assigned to the Company beginning in 2001 by Mr. Formato and the three other founders and another employee of the Company, and rescission of a non-competition and non-solicitation agreement entered into between Mr. Formato and the Company. The Company denied that it had breached any obligation owed to Mr. Formato, and defended the claim vigorously. In May 2006 the Company and Mr. Formato each filed motions for summary judgement with the court. On 20 December 2006 the court allowed the Company's motion on all counts and dismissed Mr. Formato's complaint in its entirety. On 12 January 2007 the Company received notice of Mr. Formato's appeal of the judgement in favour of the Company. The Company intends to defend the appeal vigorously. Substantially all of the costs of the defence have been covered by the Company's business insurance and the insurance carrier has reserved all rights under applicable policies.

From time to time, the Company is a party to various legal proceedings incidental to its business. The Company believes that none of the legal proceedings, that are presently pending, if adversely decided against the Company, will have a material adverse effect upon its financial position, results of operations, or liquidity.

Note 6 - Related Parties

Parker Hannifin Corporation ("Parker") is a significant shareholder in the Company and as of 3 April 2007 Parker held 12,731,500 common shares, 19.7

percent of the common shares issued and outstanding. Since 1 April 2005 Mr. 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. During the six months ended 2007 and 2006, the Company had purchases from Parker of \$96,518 and \$20,392, respectively. As of 31 March 2007 and 30 September 2006, \$11,443 and \$14,436, respectively, due to Parker was included in accounts payable.

Prior to the acquisition of Mesoscopic Devices LLC, effective 1 April 2007 (see Note 1), the Company engaged in a joint development effort with the acquiree. The Company recognised \$48,786 in research and development expense under this agreement in the six months ended 31 March 2007. As of 31 March 2007 and 2006, \$15,786 and \$0, respectively, due to Mesoscopic Devices, LLC was included in accrued expenses.

Note 7 - Concentrations

For the six months ended 31 March 2007 and 2006, the Company had government sponsored contract revenue of \$1,643,701 and \$868,718 which represented approximately 77 percent and 95 percent, respectively, of total revenue. As of 31 March 2007 and 30 September 2006, accounts receivable from government agencies accounted for 97 percent, and 84 percent, respectively, of total accounts receivable.

Note 8 - Subsequent Events

On 3 April 2007, the Company completed an equity financing and sold 16,000,000 new shares of the Company's common stock at a purchase price of UK 88 pence and US \$1.725. The Company raised gross proceeds of \$27,721,751 at the then effective exchange rate and before commissions and cash transaction costs of \$1,204,138.