Proton Power Systems plc

Interim Report 2009

Registered number 05700614

Contents

Chairman's and CEO's statement

We are pleased to report our unaudited interim results for the half year ended 30 June 2009.

Business development

Proton is in a phase of transition from a research and design focused company to an industrialised commercial provider of fuel cells and related technology. The business has made good progress in the last six months and has made changes to important positions within the Group bringing in experienced and qualified staff. The Group has also entered into new long-term agreements with contract manufacturers and suppliers. On 27 May 2009 Proton Motor signed a five-year collaboration agreement with Deutsche Mechatronics GmbH, a leading contract manufacturer to facilitate the volume production of the Group's fuel cell systems in Germany. We have also continued to invest in the Group's infrastructure, specifically our testing facilities.

The Group has partnered with leading OEM companies and has developed new innovative products during the period including the world's first triple hybrid passenger bus with Skoda Electric and the Bucher Schoerlin street sweeper. The Group also continues to develop new innovative solutions for Auxiliary Power Units (" APU's") for small and large data centres, the market for which is showing strong growth. The Group remains focused and sees strong potential in the following areas:

- maritime transport
- passenger buses
- light duty vehicles
- materials handling
- power modules for stationary backup power
- range extender solutions for commercial vehicles

We have further developed our modular concept, which allows the use of similar modules in different applications. This will lead to the cost savings necessary to make fuel cells and fuel cell hybrid systems an economic alternative to traditional power systems, thereby increasing our opportunities for mass-market sales.

We have also strengthened our sales team and can now service and support new blue chip customers which will be important OEM partners in the near future. Our partnership with L3 Communications in the USA has been renewed and strengthened to better address and support the North American market.

Financial overview

In the six months to 30 June 2009 revenue was £289,000 (2008: £455,000) which was in line with Group expectations. The outcome for the half year was a loss of £2,052,000 which was also in line with Group expectations and compares with a loss for the first half year in 2008 of £1,286,000.

The second tranche of the £2 million share subscription announced in September 2008 was received on 13 January 2009.

In addition, the Company agreed with Roundstone Properties Limited to accept the surrender of its warrants over 30,000,000 Ordinary Shares issued in February 2009, exercisable at 5 pence per Ordinary Share in return for a convertible loan facility of up to £1.5 million from Roundstone Properties Limited .The Convertible Loan is repayable by 30 June 2012 and is convertible into 75,000,000 new Ordinary Shares, pro-rata, in the capital of the Company at a price of 2 pence per share. The conversion of the loan was subject to a share capital re-organisation and obtaining the approval of shareholders at the Company's Annual General Meeting held in July 2009. The share capital reorganisation was approved and the first tranche was converted into new ordinary shares in the capital of the Company in July 2009. Thereafter, the Convertible Loan may be converted into new shares at Roundstone Properties Limited's request. The Convertible Loan attracts no interest if settlement is made by way of the issue of new shares. However, if by mutual agreement part of the loan is repaid in cash rather than converted to shares at 2 pence per share, then this portion will attract interest equivalent to 10% per annum.

£0.5m of the Convertible Loan was converted into new Proton shares after the period end, in July 2009.

Since the Annual General Meeting a further loan facility of €1.5m has been provided by Roundstone Properties Limited to fund the future growth of the Group. The term of the facility is three years from 30 July 2009 and interest is charged at 10% per annum and is to be settled by the issue of one share for every €0.02 in interest due.

People

On behalf of the Board we would like thank all our employees for their hard work and dedication to the Group. We would also like to welcome Dr. Christian Meyne as the new Chief Operating Officer of Proton Motor Fuel Cell GmbH and would like to take this opportunity to thank Benedikt Eska for his contribution as the outgoing Chief Operating Officer.

Outlook

We will continue to put resources into marketing our existing fuel cell solutions, although we will be focusing on supplying packages to OEM partners in the future. We have made strenuous efforts in marketing our products and we will further strengthen our sales team with experienced staff who have strong market experience and knowledge. The potential volume uptake of fuel cells in the different markets we are addressing is significant. Proton is working to produce systems to meet the individual requirements of each market to ensure we are able to take full advantage of the opportunities ahead.

We will also continue to develop our service team. After sales service capabilities are vital for the success of our business and are expected from our customers.

Industrialised manufacturing of our stacks and system will start in the second half of 2009. Our contract manufacturing partner Deutsche Mechatronics is currently assembling our stack as well as modules for our solutions.

Despite the difficult global economic conditions, we continue to see growing interest and demand for clean tech solutions. Governments' initiatives worldwide support new technologies and now with the necessary funding. We expect the second half of 2009 to bring the first volume orders for our new products and solutions.

Looking to the near future, rising energy prices and the demand for environmentally friendly solutions for transportation as well as stationary power will support the growth of our business. The task is to start volume production of fuel cell systems and to be able to offer attractive prices to our customers. Volume manufacturing and future service business will also support profitability and cash. We would like Proton to be a leader in the fuel cell industry in regard to both size and profit. Overall we are delighted about the progress we have seen so far and we are very confident that Proton will play a important role in the exciting hydrogen fuel cell technology.

Finally may we thank the Proton team and our advisors for their hard work and effort and our customers and suppliers for their continued confidence and support. Importantly, our further business growth would not have been possible without the loyal support of our major shareholders, such as Roundstone Properties Limited. On behalf of our Board and staff we would like to thank them for their unrelenting commitment to the Group.

John Wall FCA
Chairman

Thomas Melczer
Chief Executive

Shareholder information

Registered office and head office

St Ann's Wharf
112 Quayside
Newcastle upon Tyne
NE99 1SB

Financial advisers and stockbrokers

Arbuthnot Securities Limited
Arbuthnot House
20 Ropemaker Street
London
EC2Y 9AR

Solicitors

Dickinson Dees LLP
St Ann's Wharf
112 Quayside
Newcastle upon Tyne
NE99 1SB

Auditors

Grant Thornton UK LLP
No. 1 Whitehall Riverside
Leeds
LS1 4BN

Financial public relations

Abchurch Communications Limited
100 Cannon Street
London
EC4N 6EU

Registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Independent review report by Grant Thornton UK LLP to Proton Power Systems plc

Introduction

We have been engaged by the Company to review the financial information in the half-yearly financial report for the six months ended 30 June 2009 which comprises the income statement, the statement of comprehensive income, the consolidated balance sheet, the statement of changes in equity and the statement of cashflows and notes 1 to 4. We have read the other information contained in the half yearly financial report which comprises only the Chairman's and CEO's statement and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in ISRE (UK and Ireland) 2410, 'Review of Interim Financial Information performed by the Independent Auditor of the Entity'. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The AIM rules of the London Stock Exchange require that the accounting policies and presentation applied to the financial information in the half-yearly financial report are consistent with those which will be adopted in the annual accounts having regard to the accounting standards applicable for such accounts.

As disclosed in Note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The financial information in the half-yearly financial report has been prepared in accordance with the basis of preparation in Note 1.

Our responsibility

Our responsibility is to express to the Company a conclusion on the financial information in the interim financial report based on our review.

Scope of review

We conducted our review in accordance with ISRE (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries , primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the financial information.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the financial information in the half-yearly financial report for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with the basis of accounting described in Note 1.

Grant Thornton UK LLP

Grant Thornton UK LLP — 30 September 2009
Chartered Accountants
Leeds, England

Consolidated income statement

	Note	**Unaudited 6 months to 30 June 2009**	Unaudited 6 months to 30 June 2008	**Audited Year to 31 December 2008**
		£’000	£’000	**£’000**
Continuing operations				
Revenue		**289**	455	**1,093**
Cost of sales		**(1,567)**	(1,050)	**(2,514)**
Gross loss		**(1,278)**	(595)	**(1,421)**
Other operating income		**17**	51	**74**
Administrative expenses	*2*	**(794)**	(696)	**(1,416)**
Operating loss		**(2,055)**	(1,240)	**(2,763)**
Finance income		**3**	12	**26**
Finance costs		**-**	(58)	**(61)**
Loss for the period attributable to equity holders of the parent		**(2,052)**	(1,286)	**(2,798)**
Loss per share (expressed as pence per share)				
Basic	*4*	**(2.5)**	(3.5)	**(5.4)**
Diluted	*4*	**(2.5)**	(3.5)	**(5.4)**

Consolidated statement of comprehensive income

	Unaudited 6 months to 30 June 2009	Unaudited 6 months to 30 June 2008	**Audited Year to 31 December 2008**
	£’000	£’000	**£’000**
Loss for the period	**(2,052)**	(1,286)	**(2,798)**
Other comprehensive income			
Exchange differences on translating foreign operations	**(109)**	25	**187**
Other comprehensive income	**(109)**	25	**187**
Total comprehensive income for the period	**(2,161)**	(1,261)	**(2,611)**
Attributable to equity holders of the parent	**(2,161)**	(1,261)	**(2,611)**

Consolidated balance sheet

	Unaudited At 30 June 2009	Unaudited At 30 June 2008	**Audited At 31 December 2008**
	£'000	£'000	**£'000**
Assets			
Non-current assets			
Intangible assets	**679**	698	**783**
Property, plant and equipment	**539**	216	**362**
	1,218	914	**1,145**
Current assets			
Inventories	**100**	107	**137**
Trade and other receivables	**252**	728	**270**
Cash and cash equivalents	**705**	1,563	**772**
	1,057	2,398	**1,179**
Total assets	**2,275**	3,312	**2,324**
Liabilities			
Current liabilities			
Short-term borrowings	**-**	678	**-**
Trade and other payables	**2,410**	940	**1,348**
Total Liabilities	**2,410**	1,618	**1,348**
Net (liabilities) / assets	**(135)**	1,694	**976**
Equity			
Equity attributable to equity holders of the parent company			
Share capital	**4,100**	3,070	**3,570**
Share premium account	**6,803**	5,925	**6,275**
Merger reserve	**15,656**	15,656	**15,656**
Reverse acquisition reserve	**(13,862)**	(13,862)	**(13,862)**
Share based payment reserve	**338**	564	**346**
Foreign translation reserve	**419**	(130)	**(304)**
Capital contributions	**1,156**	1,076	**1,324**
Retained earnings	**(14,745)**	(10,605)	**(12,029)**
Total equity	**(135)**	1,694	**976**

Consolidated statement of changes in equity

	Share Capital	Share Premium	Merger Reserve	Reverse Acquisition Reserve	Share Based Payment Reserve	Translation Reserve	Capital Contribution Reserve	Retained Earnings	Total Equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2008	**1,570**	**4,735**	**15,656**	**(13,862)**	**430**	**44**	**1,002**	**(9,444)**	**131**
Share based payments credit	-	-	-	-	134	-	-	-	134
Proceeds from share issues	1,500	1,500	-	-	-	-	-	-	3,000
Share issue costs	-	(310)	-	-	-	-	-	-	(310)
Transactions with owners	**1,500**	**1,190**	**-**	**-**	**134**	**-**	**-**	**-**	**2,824**
Loss for the period	-	-	-	-	-	-	-	(1,286)	(1,286)
Other comprehensive income:									
Currency translation differences	-	-	-	-	-	(174)	74	125	25
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**(174)**	**74**	**(1,161)**	**(1,261)**
Balance at 30 June 2008	**3,070**	**5,925**	**15,656**	**(13,862)**	**564**	**(130)**	**1,076**	**(10,605)**	**1,694**
Balance at 1 July 2008	**3,070**	**5,925**	**15,656**	**(13,862)**	**564**	**(130)**	**1,076**	**(10,605)**	**1,694**
Share based payments credit	-	-	-	-	(218)	-	-	-	(218)
Proceeds from share issues	500	500	-	-	-	-	-	-	1,000
Share issue costs	-	(150)	-	-	-	-	-	-	(150)
Transactions with owners	**500**	**350**	**-**	**-**	**(218)**	**-**	**-**	**-**	**632**
Loss for the period	-	-	-	-	-	-	-	(1,512)	(1,512)
Other comprehensive income:									
Currency translation differences	-	-	-	-	-	(174)	248	88	162
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**(174)**	**248**	**(1,424)**	**(1,350)**
Balance at 31 December 2008	**3,570**	**6,275**	**15,656**	**(13,862)**	**346**	**(304)**	**1,324**	**(12,029)**	**976**
Balance at 1 January 2009	**3,570**	**6,275**	**15,656**	**(13,862)**	**346**	**(304)**	**1,324**	**(12,029)**	**976**
Share based payments credit	-	-	-	-	(8)	-	-	-	(8)
Proceeds from share issues	530	530	-	-	-	-	-	-	1,060
Share issue costs	-	(2)	-	-	-	-	-	-	(2)
Transactions with owners	**530**	**528**	**-**	**-**	**(8)**	**-**	**-**	**-**	**1,050**
Loss for the period	-	-	-	-	-	-	-	(2,052)	(2,052)
Other comprehensive income:									
Currency translation differences	-	-	-	-	-	723	(168)	(664)	(109)
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**723**	**(168)**	**(2,716)**	**(2,161)**
Balance at 30 June 2009	**4,100**	**6,803**	**15,656**	**(13,862)**	**338**	**419**	**1,156**	**(14,745)**	**(135)**

Share premium account

Costs directly associated with the issue of the new shares have been set off against the premium generated on issue of new shares.

Merger reserve

The merger reserve of £15,656,000 arises as a result of the acquisition of Proton Motor Fuel Cell GmbH during 2006. The merger reserve represents the difference between the nominal value of the share capital issued by the Company and their fair value at 31 October 2006, the date of the acquisition.

Reverse acquisition reserve

The reverse acquisition reserve arises as a result of the method of accounting for the acquisition of Proton Motor Fuel Cell GmbH by the Company. In accordance with IFRS 3 the acquisition has been accounted for as a reverse acquisition.

Share option reserve

The Group operates an equity settled share-based compensation scheme. The fair value of the employee services received for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference fair value of the options granted. At each balance sheet date the Company revises its estimate of the number of options that are expected to vest. The original expense and revisions of the original estimates are reflected in the income statement with a corresponding adjustment to equity. The share option reserve represents the balance of that equity.

Consolidated statement of cash flows

	Note	Unaudited 6 months to 30 June 2009	Unaudited 6 months to 30 June 2008	Audited Year to 31 December 2008
		£'000	£'000	£'000
Cash flows from operating activities				
Loss for the period		**(2,052)**	(1,286)	**(2,798)**
Adjustments for:				
Depreciation and amortisation		**321**	63	**489**
Interest income including loan waivers		**(3)**	(12)	**(26)**
Interest expense		**-**	58	**60**
Share based payments		**(8)**	134	**(84)**
Movement in inventories		**37**	1	**(26)**
Movement in trade and other receivables		**18**	210	**661**
Movement in trade payables		**(547)**	(417)	**(53)**
Net cash used in operations		**(2,234)**	(1,249)	**(1,777)**
Interest paid		**-**	(60)	**(65)**
Net cash used in operating activities		**(2,234)**	(1,309)	**(1,842)**
Cash flows from investing activities				
Purchase of intangible assets		**(178)**	(302)	**(643)**
Purchase of property, plant and equipment		**(216)**	(53)	**(162)**
Interest received		**3**	9	**28**
Net cash used in investing activities		**(391)**	(346)	**(777)**
Cash flows from financing activities				
Proceeds from issue of share capital		**1,058**	2,690	**3,540**
Loan repayments		**-**	(154)	**(831)**
Loan received		**1,500**	-	**-**
Net cash generated from financing activities		**2,558**	2,536	**2,709**
Net (decrease) / increase in cash and cash equivalents		**(67)**	881	**90**
Opening cash and cash equivalents		**772**	682	**682**
Closing cash and cash equivalents		**705**	1,563	**772**

Notes to the interim report

1. Basis of preparation

The 31 December 2008 consolidated financial statements of Proton Power Systems plc were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with those parts of the Companies Act 1985 applicable to those companies under IFRS under the historical cost convention. The condensed consolidated interim financial statements have been prepared in accordance with the accounting policies adopted in the 2008 statutory accounts except for the adoption of IAS 1 Presentation of Financial Statements (revised 2007 and IFRS 8, Operating Segments. The Group has chosen not to adopt IAS 34 (Interim Financial Statements) in preparing these financial statements therefore the interim financial information is not in full compliance with IFRS.

The financial information for the year ended 31 December 2008 set out in this interim report does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The Group's statutory financial statements for the year ended 31 December 2008 have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain statements under Section 237(2) or Section 237(3) of the Companies Act 1985.

The adoption of IAS 1 (Revised 2007) does not affect the financial position or profits of the Group, but gives rise to additional disclosures. The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged, however some items that were recognised directly in equity are now recognised in other comprehensive income. IAS 1 (Revised 2007) affects the presentation of owner changes in equity and introduces a 'Statement of comprehensive income'. In accordance with the new standard the entity does not present a 'Statement of recognised income and expenses (SORIE)'. Further, a 'Statement of changes in equity' is presented.

The adoption of IFRS 8 has not changed the segments that are disclosed in these interim financial statements. In the previous annual and interim financial statements, segments were based on the internal management reporting information that is regularly reviewed by the chief operating decision maker.

The consolidated financial information has been prepared under the historical cost convention and on the basis that the Group continues to be a going concern. Until such time as the Group achieves operational cash inflows through becoming a volume producer of its products to a receptive market it will remain dependant on its ability to raise cash to fund its operations from existing and potential shareholders and the debt market.

In preparing the consolidated financial information, Proton Motor Fuel Cell GmbH has been deemed to be the acquirer and the Company, the legal parent, has been deemed to be the acquiree. Under IFRS 3 “Business Combinations”, the acquisition of Proton Motor Fuel Cell GmbH by the Company has been accounted for as a reverse acquisition and the consolidated IFRS financial information of the Company is therefore a continuation of the financial information of Proton Motor Fuel Cell GmbH.

2. Share based payments

The Group has incurred an expense in respect of share options and shares issued to employees as follows:

	Unaudited 6 months to 30 June 2009	Unaudited 6 months to 30 June 2008	**Audited Year to 31 December 2008**
	£’000	£’000	**£’000**
Share options	**(8)**	134	**102**

3. Taxation

Due to losses within the Group, no expenses for tax on income were required in either the current or prior periods.

Notes to the interim report (continued)

4. Loss per share

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares, share options, however these have not been included in the calculation of loss per share because they are anti dilutive for these periods.

	Unaudited 6 months to 30 June 2009		Unaudited 6 months to 30 June 2008		**Audited Year to 31 December 2008**	
	Basic	**Diluted**	Basic	Diluted	**Basic**	**Diluted**
	£'000	**£'000**	£'000	£'000	**£'000**	**£'000**
Loss attributable to equity holders of the Company	**(2,052)**	**(2,052)**	(1,286)	(1,286)	**(2,798)**	**(2,798)**
Weighted average number of ordinary shares in issue (thousands)	**81,991**	**81,991**	36,965	36,965	**51,418**	**51,418**
Shares issuable (weighted) - share options (thousands)	**-**	**2,815**	-	1,138	**-**	**1,124**
Adjustment	**-**	**(2,815)**	-	(1,138)	**-**	**(1,124)**
Adjusted weighted average number of ordinary shares	**81,991**	**81,991**	36,965	36,965	**52,542**	**52,542**
	Pence per share	**Pence per share**	Pence per share	Pence per share	**Pence per share**	**Pence per share**
Loss per share (pence per share)	**(2.5)**	**(2.5)**	(3.5)	(3.5)	**(5.4)**	**(5.4)**

The adjustment to the weighted average number of shares used in the calculation of diluted loss per share reflects share options in issue where the exercise price exceeds the average market price of shares in the period.