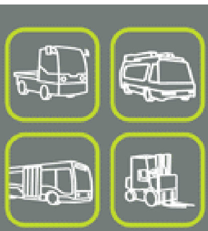

Proton Power Systems plc

Interim Report 2016

Registered number 05700614

Contents

Chairman and Deputy CEO's statement

We are pleased to report our unaudited results for the six months ended 30 June 2016.

Proton Power has made further progress in the period with delivery of commercial contracts in proven technology, strategic co-operations and building our sales pipeline for a rapid increase in our order book. Further investment in our manufacturing capability has put us in a very strong strategic position to capitalise in the marketplace and to deliver financial performance. We have strengthened our organisation to be able to deliver complete power supply solutions. We add value to our clients through our fuel cell expertise and with our system and solution know-how.

Highlights:

- Strategic Partnership signed with Deutsche Bahnbau for stationary power solutions has now started to show the potential we expected.
- Re-organisation of the company along three key market segments as increased demand is recognised.
- Sales have been flat to date in 1H2016 of £384k compared to 1H2015 sales of £387k. However, this does not bear a true reflection of our performance. The Group has won significant orders in the year to add to a current strong order book of £1.9m to be delivered by the end of 2016.
- Received a £1.3m order for emergency power solutions in outdoor cabinets to be delivered in 2016. This order is the largest order Proton Power has received in its 21-year history and is expected to form the basis of future orders providing consistent year on year revenues as the technology rollout program over a 7-year frame contract is realised.
- The operating loss on the face of the P&L does not bear a true reflection on the performance of the company. Excluding the impact on the embedded derivative together with exchange losses the operating loss in 1H2016 was (£1,502k) v 1H2015 (£1,468k) which is in line with our expectations.
- Cash burn from operating activities has increased during the period for investment in working capital required to deliver the order book. Cash flow is our key financial performance target and our objective is to achieve a positive cash flow in the shortest time possible. Current contracts are quoted with up-front payments reducing reliance on working capital as we continue to invest in our manufacturing capability. The cash burn is expected to further reduce in 2016 due to our high order backlog. The current cash position as at 30th June 2016 was £805k v 30th June 2015 was £23k as we start to deliver our order backlog.
- Involved in projects worth over £10m to introduce our technology to the market.
- Delivery of fuel cell system for Swiss housing complex.
- Delivery of fuel cell systems to repower LOHC Hydrogen.
- Installation of Proton Motor fuel cell powered electric charging station.
- Standardisation of our product topology which is used in offering bespoke CleanTech Power Solutions. This strategy shift has accelerated deployment in our target markets and resulted in simplification and cost reduction.
- Developed very strong relationships with many large multinational companies across Europe and Asia.
- We have strengthened our organisation capability with manufacturing and sales application experts.

Proton Power is playing a crucial part in shaping the Hydrogen World of the future. Its evolution from Magnet Motor Fuel Cell manufacturer to premium CleanTech Power Solutions service provider is unique.

Proton Power's pioneering spirit results in a consistent focus on the future and forms the basis for the powerful forces that will drive the next 100 years of progress and the Hydrogen World of tomorrow and beyond.

A changing brand in Stationary, Mobility and Maritime markets.

In the expansion, realignment and constant development of its core technologies, Proton Power has consistently demonstrated deep market awareness. Proton Power has survived in the CleanTech Fuel Cell technology business when many companies failed in 2008 following the financial crash. In terms of technology design, Proton Power's CleanTech technology has always remained true to its vision and has driven innovation forwards into the new hydrogen world.

The drive for Proton Power to be a global pioneer in the new CleanTech world is being realized.

The Company began as Magnet Motor, opening its factory in 1980. The technology and application roadmap went from the world's first triple hybrid fork lift truck to a fuel cell ship. After that we have developed the triple hybrid Skoda bus in 2008.

Containerized power solutions completed the application portfolio. All those applications are powered via our own fuel cell stacks, with a robust design for a long lifetime. The Company established operations in the Munich area and was one of the first German designer and manufacturer of fuel cells. International growth is now planned by looking for good partners with the same vision.

The COP21 targets present industry as a whole, in particular the automotive, industry with a huge challenge.

View to the future

Constantly evolving to stay a decisive step ahead has always formed the basis for Proton Power's thinking and actions as a company. The Company is looking two or three decades into the future and considering today the CleanTech Power Solution concepts of tomorrow. To find ground-breaking answers, Proton Power is developing a clear vision of the future – a holistic blueprint for a future world of hydrogen focused on businesses, people and their individual power needs.

Energy is becoming emission-free.

The climate is changing, resources are becoming scarcer and more energy is coming from renewable sources.

Stationary for businesses and people

This market includes back up power for telecoms and data centre installations which has an estimated value of €8Billion for the European market alone.

Mobility

Hydrogen Battery Hybrid zero emission vehicles from emission-free factories. This market includes city buses, airport vehicles, trucks, off-road vehicles to fork lift trucks. This market's size is estimated at over €20Billion worldwide.

Maritime

Building on our success installing the tourist ship in Hamburg, we now plan to sell the know-how capability to partners to evolve this market.

Power Solutions are becoming tailor-made.

CleanTech Power Solutions will become more diverse and more flexible. That is why at Proton Power we are making our offering of products and services bespoke to customer requirements based on our standard suite of CleanTech products aimed at each market sector in a scalable modular approach. As power requirements increase our approach allows users to simply add additional modules all controlled by our unique software. This shift towards modular standardisation results in accelerated deployment in our target markets with simplification and cost reduction.

Connectivity is becoming second nature.

Everything will be connected in the future. The digital age continues to drive energy demands in the world. At Proton Power we have developed our technology to remotely monitor power requirements. That is why we are seizing the opportunities of digitalisation and converting data into digital intelligence to permanently improve lives in a CleanTech environment.

Market Drivers

The 2016 edition of the World Economic Forum's annual Global Risks Report lists "failure of climate-change mitigation and adaptation" as the greatest risk facing the world over the next 10 years. That was the collective judgment of 742 surveyed experts and decision makers drawn from business, academia, civil society, and the public sector.

Also, at the November 2015 conference in Paris (COP 21) hosted by the United Nations, 196 countries vowed to take actions designed to limit global warming. Many businesses and corporations have pledged their support for the world effort. This global event engaged a lot of corporate leaders and we believe that neither countries nor companies take these kinds of public pledges lightly. Indeed, on top of polishing their public image, companies are being good citizens of the world when they pitch in with initiatives like reducing greenhouse gas emissions, increasing their use of renewable energy, and being more energy efficient.

From a purely business standpoint, considerations of where and how to build facilities (or alter existing ones) to lessen climate risk have moved up the risk management priority list. Such moves are the main market drivers for Proton Power's CleanTech power solutions and the new Hydrogen world and zero emissions. These market drivers underpin the confidence the Directors and shareholders have in Proton Power's technology to be a real game changer to society.

Coming out of Paris we now have legislation with targets for countries and businesses which are held accountable to the public. When insurance companies are pricing this into business premiums, CO2 emissions are starting to have an impact on businesses' and economies' profitability.

Climate change is a probable contributing factor in certain extreme weather events. A report from the American Meteorology Society (AMS) that assessed 2014 weather events identified human-caused climate change as a partial or likely factor in California's wildfires, Argentina's heat wave, droughts in two African areas, and extreme rainfall and heat waves in Europe.

Therefore, CleanTech technology is being prioritised and required to provide zero emission energy solutions to a multi-billion market that is growing year on year. Proton Power is strategically positioned, after more than 20 years in the industry, to win a significant share.

Finance

Turnover for the period was flat £384k (1H2015: £387k).

The operating loss excluding impact of embedded derivative is 1H2016 (£1,502k) v 1H2015 (£1,468k). Excluding the fair value loss on the embedded derivative, this was in line with management expectations.

Cash burn from operating activities has increased due to working capital requirements to deliver our commercial contracts. Cash at 30th June 2016 was (£805k) v 30th June 2015 (£23k).

I personally thank all our customers who believe in us, our committed employees and our shareholders who have the vision to invest in our mission.

Ian Peden
Executive Chairman & Deputy Chief Executive Officer

Shareholder information

Registered number

05700614

Registered office and head office

St Ann's Wharf
112 Quayside
Newcastle upon Tyne
NE1 3DX

Financial advisers and stockbroker

Stockdale Securities Limited
Beaufort House
15 St. Botolph Street
London
EC3A 7BB

Solicitors

Bond Dickinson LLP
St Ann's Wharf
112 Quayside
Newcastle upon Tyne
NE1 3DX

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Central Square South, Orchard Street
Newcastle upon Tyne
NE1 3AZ

Registrars

Neville Registrars Limited
Neville House
18 Laurel Lane
Halesowen
West Midlands
B63 3DA

Consolidated income statement

	Note	**Unaudited 6 months to 30 June 2016**	Unaudited 6 months to 30 June 2015	**Audited Year to 31 December 2015**
		£'000	£'000	**£'000**
Revenue		**384**	387	**684**
Cost of sales		**(2,725)**	(2,081)	**(4,257)**
Gross loss		**(2,341)**	(1,694)	**(3,573)**
Other operating income		**46**	16	**79**
Administrative expenses		**(4,083)**	901	**(1,071)**
Operating loss		**(6,378)**	(777)	**(4,565)**
Finance income		**2**	1	**8**
Finance costs		**(1,085)**	(754)	**(1,695)**
Fair value profit / (loss) on embedded derivatives		**745**	580	**(2,920)**
Loss for the period attributable to equity shareholders		**(6,716)**	(950)	**(9,172)**
Loss per share (expressed as pence per share)				
Basic	*6*	**(1.0)**	(0.2)	**(1.4)**
Diluted	*6*	**(1.0)**	(0.2)	**(1.4)**

Consolidated statement of comprehensive income

	Unaudited 6 months to 30 June 2016	Unaudited 6 months to 30 June 2015	**Audited Year to 31 December 2015**
	£'000	£'000	**£'000**
Loss for the period	**(6,716)**	(950)	**(9,172)**
Other comprehensive (expense) / income			
Items that may not be reclassified to profit and loss			
Exchange differences on translating foreign operations	**13**	44	**28**
Total other comprehensive (expense) / income	**13**	44	**28**
Total comprehensive expense for the year	**(6,703)**	(906)	**(9,144)**
Attributable to equity holders of the parent	**(6,703)**	(906)	**(9,144)**

Consolidated balance sheet

	Note	**Unaudited At 30 June 2016**	Unaudited At 30 June 2015	**Audited At 31 December 2015**
		£'000	£'000	**£'000**
Assets				
Non-current assets				
Intangible assets		**116**	104	**129**
Property, plant and equipment		**943**	693	**778**
		1,059	797	**907**
Current assets				
Inventories		**1,556**	505	**692**
Trade and other receivables		**505**	455	**296**
Cash and cash equivalents		**805**	186	**614**
		2,866	1,146	**1,602**
Total assets		**3,925**	1,943	**2,509**
Liabilities				
Current liabilities				
Trade and other payables		**2,653**	935	**1,480**
Borrowings		**2,268**	400	**2,084**
		4,921	1,335	**3,564**
Non-current liabilities				
Borrowings		**28,414**	18,236	**21,104**
Embedded derivatives on convertible interest		**8,796**	6,042	**9,542**
		37,210	24,278	**30,646**
Total Liabilities		**42,131**	25,613	**34,210**
Net liabilities		**(38,206)**	(23,670)	**(31,701)**
Equity				
Capital and reserves attributable to equity shareholders				
Share capital		**9,712**	9,705	**9,708**
Share premium account		**18,346**	18,329	**18,334**
Merger reserve		**15,656**	15,656	**15,656**
Reverse acquisition reserve		**(13,862)**	(13,862)	**(13,862)**
Share option reserve		**1,426**	1,045	**1,244**
Foreign translation reserve		**6,730**	6,161	**6,102**
Capital contributions		**1,134**	960	**1,002**
Accumulated losses		**(77,348)**	(61,664)	**(69,885)**
Total equity		**(38,206)**	(23,670)	**(31,701)**

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 2015	**9,695**	**18,298**	**15,656**	**(13,862)**	**971**	**5,598**	**1,065**	**(60,300)**	**(22,879)**
Share based payments credit	-	-	-	-	74	-	-	-	74
Proceeds from share issues	10	31	-	-	-	-	-	-	41
Currency translation differences	-	-	-	-	-	519	(105)	(414)	-
Transactions with owners	**10**	**31**	**-**	**-**	**74**	**519**	**(105)**	**(414)**	**115**
Loss for the period	-	-	-	-	-	-	-	(950)	(950)
Other comprehensive income:									
Currency translation differences	-	-	-	-	-	44	-	-	44
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**44**	**-**	**-**	**(906)**
Balance at 30 June 2015	**9,705**	**18,329**	**15,656**	**(13,862)**	**1,045**	**6,161**	**960**	**(61,664)**	**(23,670)**
Balance at 1 July 2015	**9,705**	**18,329**	**15,656**	**(13,862)**	**1,045**	**6,161**	**960**	**(61,664)**	**(23,670)**
Share based payments credit	-	-	-	-	199	-	-	-	199
Proceeds from share issues	3	5	-	-	-	-	-	-	8
Currency translation differences	-	-	-	-	-	(43)	42	1	-
Transactions with owners	**3**	**5**	**-**	**-**	**199**	**(43)**	**42**	**1**	**207**
Loss for the period	-	-	-	-	-	-	-	(8,222)	(8,222)
Other comprehensive income:									
Currency translation differences	-	-	-	-	-	(16)	-	-	(16)
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**(16)**	**-**	**(8,222)**	**(8,238)**
Balance at 31 December 2015	**9,708**	**18,334**	**15,656**	**(13,862)**	**1,244**	**6,102**	**1,002**	**(69,885)**	**(31,701)**
Balance at 1 January 2016	**9,708**	**18,334**	**15,656**	**(13,862)**	**1,244**	**6,102**	**1,002**	**(69,885)**	**(31,701)**
Share based payments credit	-	-	-	-	182	-	-	-	182
Proceeds from share issues	4	12	-	-	-	-	-	-	16
Currency translation differences	-	-	-	-	-	615	132	(747)	-
Transactions with owners	**4**	**12**	**-**	**-**	**182**	**615**	**132**	**(747)**	**198**
Loss for the period	-	-	-	-	-	-	-	(6,716)	(6,716
Other comprehensive income:									
Currency translation differences	-	-	-	-	-	13	-	-	13
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**13**	**-**	**(6,716)**	**(6,703)**
Balance at 30 June 2016	**9,712**	**18,346**	**15,656**	**(13,862)**	**1,426**	**6,730**	**1,134**	**(77,348)**	**(38,206)**

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 arose 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 arose 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

	Unaudited 6 months to 30 June 2016	Unaudited 6 months to 30 June 2015	**Audited Year to 31 December 2015**
	£'000	£'000	**£'000**
Cash flows from operating activities			
Loss for the period	**(6,716)**	(950)	**(9,172)**
Adjustments for:			
Depreciation and amortisation	**132**	119	**238**
Interest income	**(2)**	(1)	**(8)**
Interest expense	**1,085**	754	**1,695**
Share based payments	**182**	74	**273**
Movement in inventories	**(864)**	(193)	**(380)**
Movement in trade and other receivables	**(207)**	(114)	**45**
Movement in trade and other payables	**1,173**	154	**776**
Movement in fair value of embedded derivatives	**(745)**	(580)	**2,920**
Exchange rate movements	**3,107**	(1,616)	**(839)**
Net cash used in operations	**(2,855)**	(2,353)	**(4,452)**
Interest paid	**-**	(10)	**-**
Net cash used in operating activities	**(2,855)**	(2,363)	**(4,452)**
Cash flows from investing activities			
Purchase of intangible assets	**(12)**	(33)	**(91)**
Purchase of property, plant and equipment	**(152)**	(276)	**(360)**
Interest received	**2**	1	**8**
Net cash used in investing activities	**(162)**	(308)	**(443)**
Cash flows from financing activities			
Proceeds from issue of loan instruments	**3,184**	2,485	**5,245**
Proceeds from issue of new shares	**16**	41	**8**
Net cash generated from financing activities	**3,200**	2,526	**5,253**
Net (decrease) / increase in cash and cash equivalents	**182**	(145)	**358**
Effect of foreign exchange rates	**88**	(12)	**(4)**
Opening cash and cash equivalents	**534**	180	**180**
Closing cash and cash equivalents	**805**	23	**534**

Notes to the interim report

1. Basis of preparation

The 31 December 2015 consolidated financial statements of Proton Power Systems plc were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to those companies under IFRS. They were also prepared under the historical cost convention and in accordance with IFRS interpretations (IFRICS) except for embedded derivatives which are carried at fair value through the income statement and on the basis that the Group continues to be a going concern. The condensed consolidated interim financial statements have been prepared in accordance with the accounting policies adopted in the 31 December 2015 statutory audited financial statements. No new accounting standards have been adopted by the group since preparing its last annual report.

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 2015 set out in this interim report is unaudited and does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The Group's audited statutory financial statements for the year ended 31 December 2015 have been filed with the Registrar of Companies. The independent auditor's report on those financial statements was unqualified and did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

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.

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group’s interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least annually, or more frequently where circumstances suggest an impairment may have occurred. Any impairment is recognised immediately in income statement and is not subsequently reversed.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2. Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

Recognition of development costs
Self developed intangible assets are recognised where the Group can estimate that it is probable that future economic benefits will flow to the entity.

Impairment of goodwill
The carrying value of goodwill must be assessed for impairment annually, or more frequently if there are indications that goodwill might be impaired. This requires an estimation of the value in use of the cash generating units to which goodwill is allocated. Value in use is dependent on estimations of future cash flows from the cash generating unit and the use of an appropriate discount rate to discount those cash flows to their present value.

Notes to the interim report (continued)

Classification and fair value of financial instruments
The Group uses judgement to determine the classification of certain financial instruments, in particular convertible loans advanced during the year. Judgement is applied to determine whether the instrument is a debt, equity or compound instrument and whether any embedded derivatives exist within the contracts.

Judgements have been made regarding whether the conversion feature meets the "fixed for fixed" test in each instrument. In the case of each instrument it is deemed it is not met on the basis that the loan is in Euros and shares are in Sterling.

The Group uses valuation techniques to measure the fair value of these financial instruments. In applying these valuation techniques, management use estimates and assumptions that are, as far as possible, consistent with observable market data. Where applicable market data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

3. Segmental information

An operating segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other operating segments for which discreet financial information is available and is regularly reviewed by the Chief Operating Decision Maker ("CODM").

Based on an analysis of risks and returns, the Directors consider that the Group has only one identifiable operating segment, green energy.

All non-current assets are located in Germany.

4. 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 2016	Unaudited 6 months to 30 June 2015	**Audited Year to 31 December 2015**
	£'000	£'000	**£'000**
Share options	**182**	74	**273**
Shares	**16**	37	**41**
	198	111	**314**

5. 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)

6. 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 2016		Unaudited 6 months to 30 June 2015		**Audited Year to 31 December 2015**	
	Basic	**Diluted**	Basic	Diluted	**Basic**	**Diluted**
	£'000	**£'000**	£'000	£'000	**£'000**	**£'000**
Loss attributable to equity holders of the Company	**(6,716)**	**(6,716)**	(950)	(950)	**(9,172)**	**(9,172)**
Weighted average number of ordinary shares in issue (thousands)	**643,228**	**643,228**	642,074	642,074	**642,377**	**642,377**
Effect of dilutive potential ordinary shares from share options and convertible debt (thousands)	-	-	-	-	-	-
Adjusted weighted average number of ordinary shares	**643,228**	**643,228**	642,074	642,074	**642,377**	**642,377**
	Pence per share	**Pence per share**	Pence per share	Pence per share	**Pence per share**	**Pence per share**
Loss per share (pence per share)	**(1.0)**	**(1.0)**	(0.2)	(0.2)	**(1.4)**	**(1.4)**

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.

No interim dividend has been proposed or paid in relation to the current or prior interim period.