

ENERGY POWER SYSTEMS LTD

Form 6-K

March 05, 2002

ENERGY POWER SYSTEMS LIMITED

Consolidated Financial Statements
 December 31, 2001
 (Unaudited)
 (Expressed in Canadian Dollars)

Energy Power Systems Limited
 Consolidated Balance Sheet
 (Expressed in Canadian dollars)

| | Dec 31, 2001 (unaudited) | June 30, 2001 (audited) |
|----------------------------------|-----------------------------|----------------------------|
| ASSETS | | |
| Current | | |
| Cash | \$3,846,062 | \$1,242,621 |
| Marketable securities | 363,924 | 221,213 |
| Receivables | 6,541,782 | 4,331,086 |
| Due from co-venturer | 557,321 | 208,652 |
| Inventories and work in progress | 1,902,051 | 1,039,853 |
| Prepaid expenses | 105,522 | 67,329 |
| Investments | 3,500,000 | 3,500,000 |
| Future income tax asset | 235,000 | 235,000 |
| Total current assets | 17,051,662 | 10,845,754 |
| Oil and gas interests | 2,997,924 | 2,017,493 |

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| | | |
|-------------------------|--------------|--------------|
| Capital assets | 3,011,268 | 3,268,096 |
| Future income tax asset | 862,749 | 862,000 |
| Goodwill | 1,926,199 | 2,056,832 |
| | \$25,849,802 | \$19,050,175 |

LIABILITIES AND SHAREHOLDERS' EQUITY

Current

| | | |
|--|-----------|-----------|
| Bank indebtedness | \$908,087 | \$829,001 |
| Accounts payable and accrued liabilities | 5,476,660 | 4,200,868 |
| Due to shareholders | 513,888 | 1,162,403 |
| Current portion of long-term debt | 182,151 | 182,151 |
| Future income tax liability | 266,000 | 266,000 |
| Total current liabilities | 7,346,786 | 6,640,423 |

| | | |
|------------------------------------|-----------|-----------|
| Due to shareholders, July 31, 2001 | 350,000 | 350,000 |
| Long-term debt | 600,329 | 646,311 |
| Future income tax liability | 56,000 | 56,000 |
| Total liabilities | 8,353,115 | 7,692,734 |

Shareholders' equity

| | | |
|----------------------------|--------------|--------------|
| Capital stock | 38,185,900 | 32,207,289 |
| Deficit | (20,689,213) | (20,849,848) |
| Total shareholders' equity | \$17,496,687 | \$11,357,441 |

\$25,849,802 \$19,050,175

The accompanying notes to the financial statements are an integral part of these financial statements

Energy Power Systems Limited

Consolidated Statement of Earnings and Deficit

(Unaudited)

(Expressed in Canadian dollars)

| | For the six month period ending December 31 | | For the three month period ending December 31 | |
|---|--|--------------|--|-------------|
| | 2001 | 2000 | 2001 | 2000 |
| Sales | \$14,351,432 | \$12,788,990 | \$8,810,871 | \$8,265,023 |
| Cost of sales (including depreciation and depletion of \$125,669; 2000 - \$106,926) | 12,473,356 | 11,363,999 | 7,933,115 | 7,532,491 |
| Gross profit | 1,878,076 | 1,424,991 | 877,756 | 732,532 |
| Administrative expenses | 1,210,579 | 1,070,145 | 765,056 | 384,057 |
| Amortization of goodwill | 130,629 | 130,629 | 65,315 | 65,315 |
| Amortization of capital assets | 81,639 | 75,530 | 41,829 | 39,473 |
| Interest and bank charges | 42,576 | 43,138 | 10,561 | 13,266 |
| Interest on long-term debt | 32,471 | 48,925 | 15,045 | 24,135 |
| Earnings (loss) before | 1,497,894 | 1,368,367 | 897,806 | 526,246 |

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| | | | | |
|---|----------------|----------------|----------------|----------------|
| the following | 380,182 | 56,624 | (20,050) | 206,286 |
| Write down of inactive capital assets | (231,251) | - | (231,251) | - |
| Other income | 11,704 | 35,626 | 1,917 | 33,898 |
| Net earnings (loss) from Continuing Operations | \$160,635 | \$92,250 | (\$249,384) | \$240,184 |
| Discontinued Operations | - | 55,354 | - | 144,304 |
| Net earnings (loss) | \$160,635 | \$147,604 | (\$249,384) | \$384,488 |
| Deficit, beginning of period | (20,849,848) | (17,214,932) | (20,439,829) | (17,451,816) |
| Deficit, end of period | (\$20,689,213) | (\$17,067,328) | (\$20,689,213) | (\$17,067,328) |
| Net earnings (loss) from Continuing Operations per Common Share | | | | |
| Net earnings (loss) per share | \$0.02 | \$0.02 | (\$0.04) | \$0.06 |
| Weighted average common shares | | | | |
| outstanding (thousands) | 7,120 | 3,832 | 7,120 | 3,832 |
| Fully Diluted net earnings (loss) from Continuing Operations per Common Share | | | | |
| Net earnings (loss) per share | \$0.02 | \$0.02 | (\$0.03) | \$0.06 |
| Weighted average fully diluted shares | | | | |
| outstanding (thousands) | 7,883 | 3,832 | 7,883 | 3,832 |

The accompanying notes to the financial statements are an integral part of these financial statements

Energy Power Systems Limited

Consolidated Statement of Cash Flows

(Unaudited)

(Expressed in Canadian dollars)

| | |
|--------------------------|----------------------------|
| For the six month period | For the three month period |
| ending December 31 | ending December 31 |
| 2001 | 2000 |
| 2000 | 2001 |
| 2001 | 2000 |

Operating activities

Net earnings (loss) from

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| | | | | | |
|---|-------------|-------------|-------------|-------------|-----------|
| continuing operations | \$160,635 | | \$92,250 | (\$249,384) | \$240,184 |
| Adjustments to reconcile net earnings (loss) to net cash provided by operating activities | | | | | |
| Amortization of goodwill | 130,629 | | 130,629 | 65,315 | 65,315 |
| Amortization of capital assets | 207,308 | | 182,456 | 105,911 | 93,355 |
| (Gain) loss on sale of capital assets | (8,254) | | 1,977 | (8,254) | 1,977 |
| Unrealized foreign exchange loss | - | | 332,000 | - | 332,000 |
| Write down of marketable securities | 83,181 | | - | 83,181 | - |
| Write down of inactive capital assets | 231,251 | | - | 231,251 | - |
| Future income tax asset | | (749) | - | (4) | - |
| | 804,001 | 739,312 | 228,016 | 732,831 | |
| Net change in non-cash working capital | | | | | |
| Receivables | (2,210,696) | (236,395) | (1,720,806) | (537,656) | |
| Inventories and work in progress | (862,198) | | 690,175 | 120,256 | 1,473,419 |
| Due from co-venturer | (348,669) | (459,176) | (73,511) | (131,090) | |
| Prepaid expenses | (38,193) | | (5,763) | (3,181) | (35,162) |
| Accounts payable & accrued liabilities | 1,275,792 | (732,082) | 1,018,958 | (585,825) | |
| Cash (used in) provided by continuing operations | (1,379,963) | (3,929) | (430,268) | 916,517 | |
| Cash provided by discontinued operations | | - | 55,354 | - | 144,304 |
| Cash provided by (used in) operating activities | (1,379,963) | 51,425 | (430,268) | 1,060,821 | |
| Financing activities | | | | | |
| Advances (repayment) of bank indebtedness | | 79,086 | (279,315) | (507,512) | (943,939) |
| Repayment of long term debt, net | (113,761) | (137,343) | (61,276) | (73,850) | |
| Payments to related parties, net | | (733,165) | | (702,190) | |
| Repayment to shareholders | (648,515) | (1,218,479) | (648,692) | (618,479) | |
| Issue of common shares | 5,978,611 | 800,000 | 5,155,365 | 800,000 | |
| Cash provided by (used in) financing activities | 5,295,421 | (1,568,302) | 3,937,885 | (1,538,458) | |
| Investing activities | | | | | |
| Purchase of capital assets | (88,990) | (153,512) | (61,228) | (72,906) | |
| Proceeds from sale of capital assets | 12,000 | 12,500 | 12,000 | 12,500 | |
| Recovery of other assets | | - | 1,629,462 | - | 1,629,462 |
| Purchase of oil and gas interests | (1,009,139) | | | (893,201) | |
| Marketable securities | (225,888) | | | (67,483) | |
| Cash provided by (used in) investing activities | (1,312,017) | 1,488,450 | (1,009,912) | 1,569,056 | |
| Net increase (decrease) in cash | 2,603,441 | (28,427) | 2,497,705 | 1,091,419 | |
| Cash, beginning of period | 1,242,621 | 1,771,047 | 1,348,357 | 651,201 | |
| Cash, end of period | \$3,846,062 | \$1,742,620 | \$3,846,062 | \$1,742,620 | |

The accompanying notes to the financial statements are an integral part of these financial statements

Energy Power Systems Limited

Consolidated Statement of Segmented Information

(Unaudited) (Expressed in Canadian Dollars)

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For the six months ending December 31, 2001

| | Engineering & Offshore | Oil & Gas | Corporate | Total |
|--|---------------------------|-----------|-----------|------------|
| Revenue | 14,099,725 | 251,707 | - | 14,351,432 |
| EBITDA | 837,653 | 94,849 | (127,632) | 804,870 |
| Amortization & depletion | 309,229 | 28,708 | - | 337,937 |
| Segment operating margin | 528,424 | 66,141 | (127,632) | 466,933 |
| Write down of inactive capital assets | 231,251 | - | - | 231,251 |
| Interest and income taxes | 70,762 | - | 4,285 | 75,047 |
| Net earnings from continuing operations | 226,411 | 66,141 | (131,917) | 160,635 |
| Capital assets and Oil & Gas Interests | 3,011,268 | 2,997,924 | - | 6,009,192 |

For the six months ending December 31, 2000

| | Engineering & Offshore | Oil & Gas | Corporate | Total |
|--|---------------------------|-----------|-----------|------------|
| Revenue | 12,788,990 | - | - | 12,788,990 |
| EBITDA | 452,585 | 44,813 | 497,398 | 994,796 |
| Amortization | 313,085 | - | - | 313,085 |
| Segment operating margin | 139,500 | - | 44,813 | 184,313 |
| Interest and income taxes | 91,070 | - | 993 | 92,063 |
| Net earnings from continuing operations | 48,430 | - | 43,820 | 92,250 |
| Capital assets | 4,936,035 | - | - | 4,936,035 |

For the three months ending December 31, 2001

| | Engineering & Offshore | Oil & Gas | Corporate | Total |
|--|---------------------------|-----------|-----------|-----------|
| Revenue | 8,697,501 | 113,370 | - | 8,810,871 |
| EBITDA | 312,916 | 42,566 | (176,783) | 178,699 |
| Amortization & depletion | 156,872 | 14,354 | - | 171,226 |
| Segment operating margin | 156,044 | 28,212 | (176,783) | 7,473 |
| Write down of inactive capital assets | 231,251 | - | - | 231,251 |
| Interest and income taxes | 21,820 | - | 3,786 | 25,606 |
| Net earnings from continuing operations | (97,027) | 28,212 | (180,569) | (249,384) |

For the three months ending December 31, 2000

| | Engineering & Offshore | Oil & Gas | Corporate | Total |
|--|---------------------------|-----------|-----------|-----------|
| Revenue | 8,265,023 | - | - | 8,265,023 |
| EBITDA | 240,951 | - | 195,304 | 436,255 |
| Amortization | 158,670 | - | - | 158,670 |
| Segment operating margin | 82,281 | - | 195,304 | 277,585 |
| Interest and income taxes | 37,174 | - | 227 | 37,401 |
| Net earnings from continuing operations | 45,107 | - | 195,531 | 240,638 |

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operations

45,107

-

195,077

The accompanying notes to the financial statements are an integral part of these financial statements

Energy Power Systems Limited
Notes to Unaudited Consolidated Financial Statements
For the Six Month Period Ending December 31, 2001 (Canadian Dollars)

1. Basis of Presentation

These unaudited interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the year ended June 30, 2001. These interim financial statements should be read in conjunction with the Company's consolidated financial statements together with notes for the year ended June 30, 2001.

2. Segmented information

The Company's operations are separated into two distinct segments; the engineering and offshore division, consisting of the operations of M&M, and the oil and gas division performing oil and gas exploration and production. M&M is an engineering and construction company, performing installation, erection, welding, maintenance and ancillary fabrication services.

3. Discontinued operations

Effective June 30, 2001 the Company adopted a formal plan to dispose of its power segment of business (the "Power Division"). The Company intends to exercise its option under the terms of the Revised VBC Agreement to cause VBC to purchase the Company's equity shares in the Konaseema EPS Oakwell Power Limited and has adopted a formal plan of disposition of its interest in the Karnataka Project.

4. Subsequent Events

(a) Subsequent to the period ending December 31, 2001 800,000 preferred shares were converted into 640,000 common shares and 640,000 purchase warrants which were exercised at \$1.50 per share.

(b) Subsequent to the period ending December 31, 2001 5,000 options were exercised at a price of \$1.50 per share and 20,000 options were exercised at a price of \$4.00 per share.

5. Share Capital

(a) Authorized and Issued:

Authorized:

Unlimited number of Common Shares, without par value
Unlimited number of Class B Special Shares, without par value
Unlimited number of Class A Preference Shares, Series I

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Unlimited number of Class A Preference Shares, Series II

Issued

Common shares

| | | # | Consideration |
|---|-----------|-----------|---------------|
| Balance, as at June 30, 2001 | 6,273,419 | | \$31,007,289 |
| Issued pursuant to exercise of options | 179,000 | 433,500 | |
| Issued pursuant to private placement | 707,726 | 4,265,111 | |
| Issued pursuant to conversion of preferred shares | | 320,000 | 400,000 |
| Issued pursuant to exercise of warrants | 1,320,000 | 1,280,000 | |
| Balance, as at December 31, 2001 | 7,288,419 | | \$37,385,900 |

Preference shares

| | | | |
|----------------------------------|-----------|--|-------------|
| Balance, as at June 30, 2001 | 1,200,000 | | \$1,200,000 |
| Converted into common shares | 400,000 | | (400,000) |
| Balance, as at December 31, 2001 | 800,000 | | \$800,000 |

Total stated capital as at December 31, 2001 - \$38,185,900

(b) Common share purchase warrants outstanding consist of the following:

| Exercise Price | Expiry Date | 2001 | | 2000 | |
|----------------|-------------------|---------|---|-----------|---|
| | | | # | | # |
| \$8.00 | March 9, 2002 | 22,917 | | 222,917 | |
| \$9.60 | October 4, 2002 | 96,000 | | 96,000 | |
| \$0.52 | December 28, 2002 | | - | 1,000,000 | |
| \$0.80 | January 16, 2003 | | - | 1,000,000 | |
| US\$4.45 | May 9, 2002 | 35,000 | | - | |
| US\$4.45 | May 16, 2002 | 35,000 | - | | |
| | | 388,917 | | 2,318,917 | |

(c) Common share purchase options outstanding consist of the following:

| Exercise Price | Expiry Date | Holder | | 2001 | 2000 |
|----------------|-------------------|---------------------------|---------|---------|--------|
| | | | # | # | # |
| \$14.00 | October 1, 2004 | Employee | - | | 62,500 |
| \$20.00 | October 1, 2004 | Employees & director | - | 26,875 | |
| \$12.00 | August 15, 2001 | Employee | - | | 2,500 |
| \$12.00 | February 15, 2001 | Director | - | | 2,500 |
| \$1.50 | February 6, 2005 | Directors and employees | 5,000 | - | |
| \$4.00 | June 14, 2005 | Directors and consultants | 66,000 | | - |
| \$6.30 | January 8, 2006 | Directors and employees | 322,500 | - | |
| | | | | 393,500 | 94,375 |