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Energy Power
Systems Limited

Consolidated Financial Statements
September 30, 2002
(Unaudited)
(Expressed in Canadian Dollars)

ENERGY POWER SYSTEMS LIMITED
CONSOLIDATED BALANCE SHEET
(EXPRESSED IN CANADIAN DOLLARS)

	SEPTEMBER 30, 2002 (UNAUDITED)	JUNE 30, 2002 (AUDITED)
ASSETS		
CURRENT		
Cash	\$ 4,432,280	\$ 5,610,621
Marketable securities	284,235	283,800
Receivables	11,798,444	5,218,201
Due from co-venturer	1,083,942	159,110
Inventories and work in progress	981,379	2,652,816
Prepaid expenses	53,113	59,618
Future income tax asset	61,473	61,473

TOTAL CURRENT ASSETS	18,694,866	14,045,639
Oil and gas interests (net of accumulated depletion)	4,413,251	4,400,078
Capital assets (net of accumulated depreciation and amortization)	2,800,037	2,834,859
Investment	3,500,000	3,500,000
Future income tax asset	533,527	533,527

	\$ 29,941,681	\$ 25,314,103
=====		
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Bank indebtedness	\$ 2,226,438	\$ 1,462,766
Accounts payable and accrued liabilities	7,925,465	4,022,114
Due to shareholders	315,000	628,346
Current portion of long-term debt	185,925	185,925

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Future income tax liability	432,490	432,490

TOTAL CURRENT LIABILITIES	11,085,318	6,731,641
Long-term debt	454,093	501,670
Future income tax liability	22,110	22,110
TOTAL LIABILITIES	11,561,521	7,255,421

SHAREHOLDERS' EQUITY		
Capital stock	42,096,732	42,096,732
Deficit	(23,716,572)	(24,038,050)
TOTAL SHAREHOLDERS' EQUITY	\$ 18,380,160	\$ 18,058,682

	\$ 29,941,681	\$ 25,314,103
=====		

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 THREE MONTH PERIOD ENDING SEPTEMBER 30	
	2002	2001
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Sales	\$ 10,462,874	\$ 5,540,561

Cost of sales (including depreciation and depletion of \$117,619; 2001 - \$61,587)	9,175,826	4,540,241
Gross profit	1,287,048	1,000,320

Administrative expenses	896,717	660,023
Amortization of goodwill	-	65,314
Amortization of capital assets	17,179	39,810
Interest and bank charges	40,208	32,015
Interest on long-term debt	11,466	17,426
	965,570	814,588

Earnings before the following	321,478	185,732

Other income	-	224,287

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NET EARNINGS	\$	321,478	\$	410,019

Deficit, beginning of period		(24,038,050)		(20,849,848)

Deficit, end of period		(\$23,716,572)		(\$20,849,848)
=====				

NET EARNINGS PER COMMON SHARE

Net earnings per share	\$	0.04	\$	0.07

Weighted average common shares				

outstanding (thousands)		10,579		6,300

FULLY DILUTED NET EARNINGS PER COMMON SHARE

Net earnings per share	\$	0.03	\$	0.05

Weighted average fully diluted common shares				

outstanding (thousands)		11,010		8,695

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 THREE MONTH PERIOD
ENDING SEPTEMBER 30
2002 2001

OPERATING ACTIVITIES

Net earnings	\$	321,478	\$	410,019
Adjustments to reconcile net earnings to net cash provided by operating activities				
Amortization of goodwill		-		65,314
Amortization of capital assets		134,798		101,397

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Future income taxes, net	-	(745)

	456,276	575,985
Net change in non-cash working capital		
Receivables	(6,580,243)	(489,890)
Inventories and work in progress	1,671,437	(982,454)
Prepaid expenses	6,505	(35,012)
Accounts payable and accrued liabilities	3,903,351	256,834

CASH USED IN OPERATIONS	(542,674)	(674,537)
FINANCING ACTIVITIES		
Bank indebtedness	763,672	586,598
Long term debt, net	(47,577)	(52,485)
Repayment to shareholders	(313,346)	177
Issue of common shares	-	823,246

CASH PROVIDED BY FINANCING ACITIVITIES	402,749	1,357,536
INVESTING ACTIVITIES		
Purchase of capital assets	(26,027)	(27,762)
Purchase of oil and gas interests	(87,122)	(115,938)
Due from co-venturer	(924,832)	(275,158)
Marketable securities	(435)	(158,405)

CASH USED IN INVESTING ACTIVITIES	(1,038,416)	(577,263)
NET INCREASE IN CASH	(1,178,341)	105,736
Cash, beginning of period	5,610,621	1,242,621

CASH, END OF PERIOD	\$ 4,432,280	\$1,348,357
=====		

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

CASH, END OF PERIOD CONSISTS OF:	Cash	\$4,432,280	\$1,348,357
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ENERGY POWER SYSTEMS LIMITED
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD ENDING SEPTEMBER 30, 2002

(EXPRESSED IN 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, 2002. These interim financial statements should be read in conjunction with the Company's audited consolidated financial statements together with notes for the year ended June 30, 2002.

2. SEGMENTED INFORMATION

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The Company's operations are separated into two distinct segments; the Industrial & Offshore Division, consisting of the consolidated operations of M&M Engineering Limited, a wholly owned subsidiary, and the Oil & Gas Division performing oil and gas exploration and production. M&M is an industrial contracting company performing fabrication and installation of process piping, installation of production equipment, steel tank erection, specialized welding services and industrial maintenance. Results for the three months ending September 30, 2002 and September 30, 2001 are as follows:

FOR THE THREE MONTHS ENDING SEPTEMBER 30, 2002

	Industrial & Offshore	Oil & Gas	Corporate	Total
Revenue	10,306,317	156,557	-	10,462,874
Interest expense	49,901	-	1,773	51,674
Amortization and depletion	60,849	73,949	-	134,798
Net earnings (loss)	689,503	(21,761)	(346,264)	321,478
=====				
Capital assets and oil and gas interests	2,800,037	4,413,251	-	7,213,288
=====				

FOR THE THREE MONTHS ENDING SEPTEMBER 30, 2001

	Industrial & Offshore	Oil & Gas	Corporate	Total
Revenue	5,402,224	138,337	-	5,540,561
Interest expense	49,441	-	-	49,441
Amortization and depletion	152,357	14,354	-	166,711
Net earnings	323,438	37,929	48,652	410,019
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Capital assets and oil and gas interests	3,236,702	2,119,077	-	5,355,779
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3. SUBSEQUENT EVENTS

On October 4, 2002 96,000 warrants exercisable at \$9.60 expired.

4. SHARE CAPITAL

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(a) Authorized and Issued:

Authorized:

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

Issued

Common shares

	#	Consideration
Balance, as at June 30, 2002	10,578,645	\$42,096,732
Balance, as at September 30, 2002	10,578,645	\$ 42,096,732

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

EXERCISE	EXPIRY	2002	2001
PRICE	DATE	#	#
\$8.00	March 9, 2002	-	222,917
\$9.60	October 4, 2002	96,000	96,000
US\$4.45	March 13, 2003	40,000	-
		-----	-----
		136,000	318,917
		=====	=====

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

EXERCISE	EXPIRY	2002	2001	
PRICE	DATE	HOLDER	#	#
\$ 1.50	February 6, 2005	Directors and employees	-	105,000
\$ 4.00	June 14, 2005	Directors and consultants	21,000	110,000
\$ 6.30	January 8, 2006	Directors and employees	274,000	-
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			295,000	215,000

