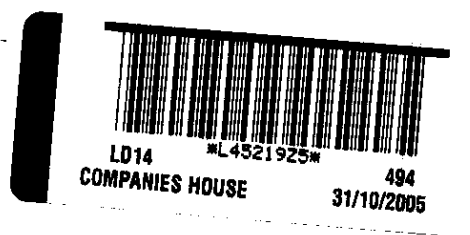


**OCEAN POWER DELIVERY LIMITED**

***Registered number: SC 182368***

**Directors' Report and Financial Statements**

**For the year ended 31 December 2004**



# **OCEAN POWER DELIVERY LIMITED**

## **Company Information**

### **Directors**

Richard Yemm  
Max Carcas  
David Lindley  
Richard Erskine  
Marco Fabbri  
Gianni Operto  
Colin Moynihan

### **Secretary**

Secretar Securities Limited

### **Registered office**

c/o DLA  
Rutland Square  
Edinburgh  
EH1 2AA

### **Registered number**

SC 182368

### **Auditors**

Scott-Moncrieff  
Chartered Accountants  
Registered Auditor  
17 Melville Street  
Edinburgh  
EH3 7PH

### **Solicitor**

DLA  
Rutland Square  
Edinburgh  
EH1 2AA

### **Principal banker**

The Royal Bank of Scotland plc  
St Andrew Square  
Edinburgh  
EH2 2YB

**OCEAN POWER DELIVERY LIMITED**

**Financial Statements**

**For the year ended 31 December 2004**

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Profit and Loss Account	4
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# OCEAN POWER DELIVERY LIMITED

## Report of the directors

The directors present their report and the audited financial statements for the year ended 31 December 2004.

### Principal activity

The principal activity and core business of the company is in the field of development and construction of renewable energy systems and associated engineering projects.

### Directors' interests

The interests, as defined by the Companies Act 1985, of the directors in the share capital of the company at the beginning of the year and end of the year were:

	Ordinary Shares of 25p each	
	31 December 2004	1 January 2004
Richard Yemm	241,000	241,000
Max Carcas	3,000	3,000
David Lindley	-	-
Richard Erskine	-	-
Marco Fabbri	-	-
Gianni Operto (appointed 21/02/05)	-	-
Colin Moynihhan (appointed 24/08/05)	-	-
Bruno Derungs (resigned 21/02/05)	-	-

None of the directors had any interest in the ordinary 'A' share capital of the company during the year (2003: Nil).

The company granted share options to purchase ordinary shares in the company at £9 per share. At the year end M Carcas held 4,865 options (2003 - 2,194) and D Lindley held 6,502 options (2003 - 3,251). No consideration was paid for the options.

### Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Auditors

The auditors, Scott-Moncrieff, will be proposed for reappointment in accordance with Section 385 of the Companies Act 1985.

**OCEAN POWER DELIVERY LIMITED**

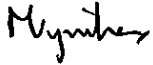
**Report of the Directors**

**For the year ended 31 December 2004**

**Small company exemptions**

This report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

This report was approved by the board on 25 October 2005 and signed on its behalf by:



**Colin Moynihan**  
Director

## OCEAN POWER DELIVERY LIMITED

### Independent auditor's report to the shareholders of Ocean Power Delivery Limited

We have audited the financial statements of Ocean Power Delivery Limited for the year ended 31 December 2004 set out on pages 4 to 10 which have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (Effective June 2002), under the historical cost convention and the accounting policies set out on pages 6 and 7.

This report is made solely to the company's members as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' report and consider the implications for our report, if we become aware of any apparent misstatements within it.

### Basis of opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Scott - Moncrieff*

**Scott-Moncrieff**  
**Chartered Accountants**  
**Registered Auditor**

**17 Melville Street**  
**Edinburgh**  
**EH3 7PH**

Date: 25 October 2005

# OCEAN POWER DELIVERY LIMITED

## Profit and Loss Account

For the year ended 31 December 2004

	Note	2004 £	2003 £
<b>Turnover</b>		50,647	21,945
 <i>Administrative expenses</i>		 (872,714)	 (811,232)
<i>Other operating income</i>	2	19,232	20,688
		<hr/>	<hr/>
<b>Operating loss</b>	3	(802,835)	(768,599)
<i>Investment income</i>		12,426	15,978
<i>Interest payable and similar charges</i>		(22,981)	(8,616)
		<hr/>	<hr/>
<b>Loss on ordinary activities before taxation</b>		(813,390)	(761,237)
<i>Tax on profit on ordinary activities</i>	5	-	-
		<hr/>	<hr/>
<b>Loss on ordinary activities after taxation</b>	13	<u>(813,390)</u>	<u>(761,237)</u>

The notes on pages 6 to 10 form part of these financial statements.

# OCEAN POWER DELIVERY LIMITED

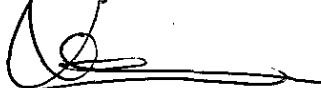
## Balance Sheet

At 31 December 2004

	Note	2004 £	2003 £
<b>Fixed assets</b>			
Intangible assets	7	6,519,388	3,975,187
Tangible assets	8	219,266	272,951
		<u>6,738,654</u>	<u>4,248,138</u>
<b>Current assets</b>			
Debtors	9	89,649	63,197
Cash at bank and in hand		640,919	856,247
		<u>730,568</u>	<u>919,444</u>
<b>Creditors: amounts falling due within one year</b>	10	(259,155)	(1,234,689)
<b>Net current assets/(liabilities)</b>		<u>471,413</u>	<u>(315,245)</u>
<b>Total asset less current liabilities</b>		<u>7,210,067</u>	<u>3,932,893</u>
<b>Accruals and deferred income</b>	11	(2,116,243)	(1,813,575)
<b>Net assets</b>		<u>5,093,824</u>	<u>2,119,318</u>
<b>Capital and reserves</b>			
Called up share capital	12	273,432	197,200
Share premium	13	7,294,128	3,582,464
Profit and loss account	13	(2,473,736)	(1,660,346)
<b>Shareholders' funds</b>		<u>5,093,824</u>	<u>2,119,318</u>

The financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies and in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002).

The financial statements were approved by the board on 25 October 2005 and signed on its behalf by:



**Richard Yemm**  
Director

The notes on pages 6 to 10 form part of these financial statements.



# OCEAN POWER DELIVERY LIMITED

## Notes to the Financial Statements

For the year ended 31 December 2004

### 1 Accounting policies

#### ***Basis of accounting***

The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002).

#### ***Going concern***

During the year the company continued the development of the Pelamis Wave Energy Converter and incurred further losses. During the year the company received further inward equity investment and has embarked on a further fundraising programme since the year end. The directors have prepared these accounts on the going concern basis. Further details are provided in note 16 to the accounts.

#### ***Cash Flow***

The financial statements do not include a cash flow statement because the company, as a small reporting entity, is exempt from the requirements to prepare such a statement under the Financial Reporting Standard for Smaller Entities (effective June 2002).

#### ***Turnover***

Turnover comprises the invoiced value of goods and services supplied by the company, exclusive of Value Added Tax and trade discounts.

#### ***Intangible fixed assets***

Patents and licences are stated at cost and are amortised on a straight line basis over 20 years.

#### ***Development costs***

Development costs are capitalised within intangible assets where they can be identified as relating to a specific product or project anticipated to produce future benefits, and are amortised on a straight line basis over the anticipated life of the benefits arising from the completed product or project.

Deferred developments costs are reviewed annually, and where future benefits are deemed to have ceased or to be in doubt, the balance of any related costs are written off to the profit and loss account in that year.

Research costs are charged to the profit and loss account as incurred.

#### ***Tangible fixed assets***

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Plant and machinery	- 25% reducing balance
Fixtures and fittings	- 25% reducing balance
Motor vehicles	- 25% reducing balance

#### ***Operating leases***

Costs in respect of operating leases are charged on a straight line basis over the lease term.

# OCEAN POWER DELIVERY LIMITED

## Notes to the Financial Statements

For the year ended 31 December 2004

### **Deferred tax**

Provision is made in full for all taxation deferred in respect of timing differences that have originated but not reversed by the balance sheet date, except for gains on disposal of fixed assets which will be rolled over into replacement assets. No provision is made for taxation on permanent differences.

Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered.

### **Pension costs**

The company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the year.

### **Government grants**

Government grants relating to tangible fixed assets are treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned. Government grants relating to capitalised development expenditure are credited to the profit and loss account against the release of the associated expenditure. Other grants are credited to the profit and loss account as the related expenditure is incurred.

## **2 Other operating income**

	<b>2004</b>	<b>2003</b>
	<b>£</b>	<b>£</b>
Government grants received	8,100	5,845
Government grants released	11,132	14,843
	<u>19,232</u>	<u>20,688</u>

## **3 Operating loss**

	<b>2004</b>	<b>2003</b>
	<b>£</b>	<b>£</b>
Operating loss is stated after charging:		
Depreciation of tangible assets	73,089	90,982
Amortisation of intangible assets	4,410	2,483
Auditors' remuneration	4,500	3,600
Pension costs	23,124	15,368
and after crediting:		
Grants received	<u>(8,100)</u>	<u>(5,845)</u>

## **4 Directors' emoluments**

	<b>2004</b>	<b>2003</b>
	<b>£</b>	<b>£</b>
Directors' emoluments	<u>197,812</u>	<u>190,110</u>

During the year retirement benefits were accruing to 2 directors (2003 - 2) in respect of money purchase pension schemes.

## **5 Tax on profit on ordinary activities**

Due to losses incurred there is no tax payable for the year.

The company has tax losses of £2,614,413 to carry forward against future trading profits.

# OCEAN POWER DELIVERY LIMITED

## Notes to the Financial Statements

For the year ended 31 December 2004

### 6 Pension costs

The pension cost charge for the year amounted to £23,124 (2003: £15,368).

The amount of outstanding contributions at the end of the year was £4,069 (2003: £-).

### 7 Intangible fixed assets

	Patent and licences £	Development costs £	Total £
<b>Cost</b>			
At 1 January 2004	49,673	3,931,476	3,981,149
Additions	38,534	2,510,077	2,548,611
At 31 December 2004	<u>88,207</u>	<u>6,441,553</u>	<u>6,529,760</u>
<b>Amortisation</b>			
At 1 January 2004	5,962	-	5,962
Amortisation for the year	4,410	-	4,410
At 31 December 2004	<u>10,372</u>	<u>-</u>	<u>10,372</u>
<b>Net book value</b>			
At 31 December 2004	<u>77,835</u>	<u>6,441,553</u>	<u>6,519,388</u>
At 31 December 2003	<u>43,711</u>	<u>3,931,476</u>	<u>3,975,187</u>

### 8 Tangible fixed assets

	Plant and machinery £	Fixtures and fittings £	Motor vehicles £	Total £
<b>Cost</b>				
At 1 January 2004	365,771	99,400	3,005	468,176
Additions	-	19,405	-	19,405
At 31 December 2004	<u>365,771</u>	<u>118,805</u>	<u>3,005</u>	<u>487,581</u>
<b>Depreciation</b>				
At 1 January 2004	158,460	36,014	751	195,225
Depreciation for the year	51,828	20,698	564	73,090
At 31 December 2004	<u>210,288</u>	<u>56,712</u>	<u>1,315</u>	<u>268,315</u>
<b>Net book value</b>				
At 31 December 2004	<u>155,483</u>	<u>62,093</u>	<u>1,690</u>	<u>219,266</u>
At 31 December 2003	<u>207,311</u>	<u>63,386</u>	<u>2,254</u>	<u>272,951</u>

### 9 Debtors

	2004 £	2003 £
Debtors	<u>89,649</u>	<u>63,197</u>

# OCEAN POWER DELIVERY LIMITED

## Notes to the Financial Statements

For the year ended 31 December 2004

### 10 Creditors: amounts falling due within one year

	2004 £	2003 £
Bank loans and overdrafts	37,455	49,369
Trade creditors	170,132	390,175
Tax and social security	39,494	28,106
Other creditors	12,074	767,039
	<u>259,155</u>	<u>1,234,689</u>

Included within other creditors in the previous year were £750,000 of convertible loan notes issued by the company. These were secured by a bond and floating charge over all the assets of the company. During the year these were converted into Ordinary 'A' shares. See note 12 for further details.

### 11 Accruals and deferred income

	2004 £	2003 £
Deferred government grants	<u>2,116,243</u>	<u>1,813,575</u>

### 12 Share capital

	2004 £	2003 £
<b>Authorised</b>		
600,000 Ordinary Shares of 25p each	150,000	150,000
700,000 Ordinary 'A' shares of 25p each	175,000	125,000
	<u>325,000</u>	<u>275,000</u>
<b>Allotted, called up and fully paid</b>		
493,000 Ordinary Shares of 25p each	123,250	123,250
600,726 Ordinary 'A' shares of 25p each	150,182	73,950
	<u>273,432</u>	<u>197,200</u>

On 30 June 2004 £750,000 of convertible loan notes were converted into 172,020 'A' ordinary shares of 25p each.

Also during the year the company issued a further 132,906 Ordinary 'A' shares of 25p each for a consideration of £3,100,696.

The ordinary 'A' shares may be redeemed, at the option of the holder, at any time following the fifth anniversary of the date of adoption of the company's Articles of Association. The earliest date of redemption is 18 June 2007. The option to redeem does not expire. A premium of 20% is payable upon redemption.

# OCEAN POWER DELIVERY LIMITED

## Notes to the Financial Statements

For the year ended 31 December 2004

### 13 Reserves

	Share premium £	Profit and loss account £	Total £
At 1 January 2004	3,582,464	(1,660,346)	1,922,118
Shares issued in year	3,711,664	-	3,711,664
Retained for the year	-	(813,390)	(813,390)
At 31 December 2004	<u>7,294,128</u>	<u>(2,473,736)</u>	<u>4,820,392</u>

### 14 Operating lease commitments

At 31 December 2004 the company had annual commitments under non-cancellable operating leases as follows:

	2004 £	2003 £
Expiring:		
Within one year	25,996	10,000
Between two and five years	-	2,996
Over five years	<u>65,174</u>	<u>65,174</u>

### 15 Related parties

In November 2003 the company issued £750,000 convertible loan notes. 3i Group plc held £250,000, SAM Sustainability Private Equity LP held £70,000, SAM Private Equity Energy Fund LP held £180,000 and Norsk Hydro Technology Ventures AS held £250,000. On 30 June 2004 the loan notes were converted under the terms of the investment agreement into 172,020 'A' ordinary shares of 25p each.

3i group plc, SAM Sustainability Private Equity LP, SAM Private Equity Energy Fund LP and Norsk Hydro Technology Ventures AS were existing shareholders of the company.

### 16 Going concern

The directors consider that in preparing the financial statements they have taken into account all information that could reasonably be expected to be available and consider that it is appropriate to prepare the financial statements on the going concern basis.

In making this decision, the directors have prepared projections for the 12 month period from the date of approval of the financial statements and since the year end the company has continued to develop the Pelamis WEC and has secured a sales order worth £5.7m (Euros 8.2m).

The company is also in the process of also securing additional funding although this had not been completed at the date of approval of the financial statements.

In these circumstances the directors consider that it is appropriate to prepare these financial statements on the going concern basis.