

**PELAMIS WAVE POWER LIMITED**

**(formerly Ocean Power Delivery Limited)**

***Registered number. SC 182368***

**Directors' Report and Financial Statements**

**For the year ended 31 December 2006**

WEDNESDAY



\*S6O1VU9L\*

SCT

31/10/2007

237

COMPANIES HOUSE

# **PELAMIS WAVE POWER LIMITED**

## **Company Information**

### **Directors**

Colin Moynihan (Chairman)  
Philip Casson Metcalf (appointed 27 September 2007)  
Diana Dyer Bartlett (appointed 27 September 2007)  
Max Carcas  
Richard Yemm  
Richard Erskine  
Marco Fabbri  
David Lindley  
Gianni Operto

### **Secretary**

Secretar Securities Limited

### **Registered office**

c/o DLA Piper Rudnick Gray Cary Scotland LLP  
Collins House, Rutland Square  
Edinburgh  
EH1 2AA

### **Registered number**

SC 182368

### **Auditors**

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

### **Solicitor**

DLA Piper Rudnick Gray Cary Scotland LLP  
Collins House, Rutland Square  
Edinburgh  
EH1 2AA

### **Principal banker**

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

**PELAMIS WAVE POWER LIMITED**  
**(formerly Ocean Power Delivery Limited)**

**Financial Statements**  
**For the year ended 31 December 2006**

<b>Contents</b>	<b>Page</b>
Report of the directors	1
Independent Auditors' Report	3
Profit and Loss Account	4
Statement of Total Recognised Gains and Losses	4
Balance Sheet	5
Notes to the Financial Statements	6 13

# PELAMIS WAVE POWER LIMITED

## Report of the directors

The directors present their report and the audited financial statements for the year ended 31 December 2006

## Principal activity

The principal activity and core business of the Company is the development and construction of renewable energy systems and associated engineering projects

On 21 August 2007 the Company passed a special resolution to change its name from Ocean Power Delivery Limited to Pelamis Wave Power Limited

## Directors and 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 2006	1 January 2006
Colin Moynihan		
Max Carcas	3,000	3,000
Richard Yemm	241,000	241,000
Richard Erskine		
Marco Fabbri		
David Lindley		
Gianni Operto		

On 27 September 2007 Phil Metcalf was appointed Chief Executive Officer and Diana Dyer Bartlett was appointed Chief Financial Officer

None of the directors had any interest in the 'A' share capital of the Company during the year (2005 Nil) On 19 June 2007 C Moynihan subscribed for 55,556 'A' shares at £9 per share

At the year end M Carcas held options over 4,865 ordinary shares (2005 4,865) and D Lindley held options over 6,502 ordinary shares (2005 6,502), all exercisable at £9 per share No consideration was paid for the options

At the year end C Moynihan held options over 21,000 ordinary shares (2005 10,500) exercisable at £23.33 per share

## 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

## PELAMIS WAVE POWER LIMITED

### Disclosure of information to auditors

As far as each of the directors, at the time the report is approved, are aware

- there is no relevant information of which the Company's auditors are unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information

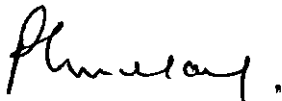
### Auditors

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

### Small company exemptions

This report and accounts have 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 30 October 2007 and signed on its behalf by



**Philip Casson Metcalf**  
Chief Executive Officer

**PELAMIS WAVE POWER LIMITED**

**Independent auditor's report to the shareholders of Pelamis Wave Power Limited  
(formerly Ocean Power Delivery Limited)**

We have audited the financial statements of Pelamis Wave Power Limited for the year ended 31 December 2006 set out on pages 4 to 13 which have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2005), under the historical cost convention and the accounting policies set out on pages 6 to 8

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 International Standards on Auditing (UK and Ireland).

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 information given in the Directors' Report is 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 International Standards on Auditing (UK and Ireland) 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, in accordance with United Kingdom Generally Accepted Accounting Practice applicable to smaller entities, of the state of the company's affairs as at 31 December 2006 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

**Scott-Moncrieff  
Chartered Accountants  
Registered Auditor**



**17 Melville Street  
Edinburgh  
EH3 7PH**

**Date: 29 October 2007**

**PELAMIS WAVE POWER LIMITED**

**Profit and Loss Account for the year ended 31 December 2006**

		2006	2005
	Note	£	Restated £
<b>Turnover</b>	2	32,403	4,767,488
Cost of sales		<u>(8,627,274)</u>	<u>(4,767,488)</u>
<b>Gross loss</b>		(8,594,871)	
Administrative expenses			
Exceptional write down of development expenditure	3	(9,282,923)	
Other		(2,945,183)	(1,863,138)
Other operating income	4	<u>48,222</u>	<u>67,504</u>
<b>Operating loss</b>	5	(20,774,755)	(1,795,634)
Investment income		167,028	14,672
Interest payable and similar charges		<u>(3,016,666)</u>	<u>(369,897)</u>
<b>Loss on ordinary activities before taxation</b>		(23,624,393)	(2,150,859)
Tax on loss on ordinary activities	7		
<b>Loss on ordinary activities after taxation</b>		<u><u>(23,624,393)</u></u>	<u><u>(2,150,859)</u></u>

**Statement of Total Recognised Gains and Losses**

**For the year ended 31 December 2006**

		2006	2005
	Note	£	Restated £
<b>Loss attributable to equity shareholders</b>		(23,624,393)	(2,150,859)
Prior year adjustment relating to restatement of A shares as liability	22	(797,150)	
Prior year adjustment with regard to change in accounting policy on depreciation	22	<u>(155,630)</u>	
<b>Total recognised gains and losses since the last annual report</b>		<u><u>(24,577,173)</u></u>	<u><u>(2,150,859)</u></u>

The notes on pages 6 to 13 form part of these financial statements

**PELAMIS WAVE POWER LIMITED**

**Balance Sheet as at 31 December 2006**

		<b>2006</b>		<b>2005 Restated</b>	
	<b>Note</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Fixed assets</b>					
Intangible assets	9		178,415		8,240,963
Tangible assets	10		241,448		33,276
Investments	11		1,503,723		951,881
			<u>1,923,586</u>		<u>9,226,120</u>
 <b>Current assets</b>					
Debtors	12	299,665		2,733,339	
Cash at bank and in hand		2,237,792		630,684	
		<u>2,537,457</u>		<u>3,364,023</u>	
 <b>Creditors. amounts falling due within one year</b>					
	13	(4,607,682)		(6,803,418)	
 <b>Net current liabilities</b>		<u>(2,070,225)</u>		<u>(3,439,395)</u>	
 <b>Total assets less current liabilities</b>			<u>(146,639)</u>		<u>5,786,725</u>
 <b>Creditors amounts falling due after more than one year</b>					
	14		(27,798,077)		(8,163,437)
<b>Accruals and deferred income</b>	15				(2,105,110)
 <b>Net assets</b>			<u>(27,944,716)</u>		<u>(4,481,822)</u>
 <b>Capital and reserves</b>					
Called up share capital	16		123,250		123,250
Share premium	17		78,023		78,023
Profit and loss account	17		(28,145,989)		(4,683,095)
 <b>Shareholders' funds</b>			<u>(27,944,716)</u>		<u>(4,481,822)</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 January 2007 but adopted early by the Company)

The financial statements were authorised for issue by the board on 30 October 2007 and signed on its behalf by

  
**Philip Casson Metcalf**  
 Chief Executive Officer

The notes on pages 6 to 13 form part of these financial statements



# **PELAMIS WAVE POWER LIMITED**

## **Notes to the Financial Statements**

**For the year ended 31 December 2006**

### **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 January 2007 but adopted early by the Company). The accounts were previously prepared under the Financial Reporting Standard for Smaller Entities which was effective from 1 January 2005. The main change relates to the introduction of charges in respect of share based payments.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year with the exception of the change to the accounting policy for share based payments described above and depreciation. The 2005 balance sheet has also been restated to reclassify the A shares as a liability. At the same time the premium on redemption on the A shares has been recognised.

Further details of the changes in accounting policy and their effect on the results and financial position of the Company are provided in note 22 to the accounts.

The Company is exempt from the requirements to prepare group accounts by virtue of section 248 of the Companies Act 1985. These financial statements therefore present information about the Company as an individual undertaking and not its group.

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

During the year the Company continued the development of the Pelamis Wave Energy Converter and incurred further losses. The Company has secured further funding from existing shareholders which has enabled it to prepare its financial statements as a going concern.

#### ***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 January 2007 but adopted early by the Company).

#### ***Turnover***

Turnover comprises the value of goods and services supplied by the Company, exclusive of Value Added Tax and trade discounts. It also includes income earned under long term contracts.

#### ***Intangible 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 over the anticipated life of the benefits arising from the completed product or project.

Deferred development 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.

# PELAMIS WAVE POWER LIMITED

## Notes to the Financial Statements

For the year ended 31 December 2006

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

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment. Depreciation is provided at rates calculated to write off the cost of each asset on a straight line over its expected useful life as follows:

Plant and machinery	4 years
Fixtures and fittings and office equipment	3-4 years
Motor vehicles	4 years

### ***Investments***

Fixed asset investments are stated at cost, less any provisions required where there has been a permanent diminution in their value.

### ***Operating leases***

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

### ***Long term contract work in progress***

Profit on long term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit included is calculated on a prudent basis to reflect the proportion of the work carried out at the year end, by recording turnover and related costs as contract activity progresses. Turnover is calculated as that proportion of total contract value which costs incurred to date bear to total expected costs for that contract. Revenues derived from variations on contracts are recognised only when they have been accepted by the customer. Full provision is made for losses on all contracts in the year which they are first foreseen.

### ***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.

### ***Foreign currencies***

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction.

Foreign currency assets and liabilities held at the balance sheet date are retranslated at the exchange rates ruling at that date. Any resulting exchange profit or loss is dealt with in the profit and loss account.

### ***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.

# **PELAMIS WAVE POWER LIMITED**

## **Notes to the Financial Statements**

**For the year ended 31 December 2006**

### **Share based payments**

The Company issues equity settled share based payments to certain employees. Equity settled share based payments are measured at fair value at the date of grant. The fair value is expensed pro rata over the vesting period, based on the Company's estimate of shares that will eventually vest. Fair value is measured by use of the Black Scholes pricing model.

### **2 Turnover**

During 2005 and 2006 all turnover related to clients outside the UK.

### **3 Exceptional write down of development expenditure**

At the end of the year the Company carried out a review of its development expenditure and concluded that as a result of advances made to its technology recently, it would be prudent to write down the £11,441,396 expenditure previously capitalised in relation to older technology, net of £2,158,473 grants related thereto included in accruals and deferred income.

### **4 Other operating income**

	2006 £	2005 £
Government grants received	37,090	56,372
Government grants released	11,132	11,132
	<u>48,222</u>	<u>67,504</u>

### **5 Operating loss**

	2006 £	2005 Restated £
Operating loss is stated after charging		
Depreciation of tangible assets	105,513	181,714
Amortisation of intangible assets	10,322	7,354
Auditors' remuneration	11,000	9,000
Pension costs and after crediting	34,094	26,195
Grants received	<u>(37,090)</u>	<u>(56,372)</u>

### **6 Directors' emoluments**

	2006 £	2005 £
Directors' emoluments	<u>204,325</u>	<u>184,753</u>

During the year retirement benefits were accruing to 2 directors (2005: 2) in respect of money purchase pension schemes.

### **7 Tax on loss on ordinary activities**

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

The Company has tax losses of £27,238,343 to carry forward against future trading profits (2005: £3,850,462).

**PELAMIS WAVE POWER LIMITED**

**Notes to the Financial Statements**

**For the year ended 31 December 2006**

**8 Pension costs**

The pension cost charge for the year amounted to £34,094 (2005 £26,195)

The amount of outstanding contributions at the end of the year was £3,715 (2005 £4,561)

**9 Intangible fixed assets**

	<b>Patents and licences £</b>	<b>Development costs £</b>	<b>Total £</b>
<b>Cost</b>			
At 1 January 2006	147,067	8,111,622	8,258,689
Additions	59,396	3,329,774	3,389,170
At 31 December 2006	<u>206,463</u>	<u>11,441,396</u>	<u>11,647,859</u>
<b>Amortisation</b>			
At 1 January 2006	17,726		17,726
Amortisation for the year	10,322		10,322
Exceptional write down		11,441,396	11,441,396
At 31 December 2006	<u>28,048</u>	<u>11,441,396</u>	<u>11,469,444</u>
<b>Net book value</b>			
At 31 December 2006	<u>178,415</u>		<u>178,415</u>
At 31 December 2005	<u>129,341</u>	<u>8,111,622</u>	<u>8,240,963</u>

**10 Tangible fixed assets**

	<b>Plant and machinery £</b>	<b>Fixtures, fittings and office equipment £</b>	<b>Motor vehicles £</b>	<b>Total £</b>
<b>Cost</b>				
At 1 January 2006	365,771	145,656	8,765	520,192
Additions	247,307	66,852		314,159
Disposals		(711)		(711)
At 31 December 2006	<u>613,078</u>	<u>211,797</u>	<u>8,765</u>	<u>833,640</u>
<b>Depreciation</b>				
At 1 January 2006 restated	365,771	117,451	3,694	486,916
Depreciation for the year	61,827	41,495	2,191	105,513
Disposals		(237)		(237)
At 31 December 2006	<u>427,598</u>	<u>158,709</u>	<u>5,885</u>	<u>592,192</u>
<b>Net book value</b>				
At 31 December 2006	<u>185,480</u>	<u>53,088</u>	<u>2,880</u>	<u>241,448</u>
At 31 December 2005 restated		<u>28,205</u>	<u>5,071</u>	<u>33,276</u>

**PELAMIS WAVE POWER LIMITED**

**Notes to the Financial Statements**

**For the year ended 31 December 2006**

**11 Fixed asset investments**

<b>Cost</b>	<b>Loans to Group undertakings £</b>	<b>Shares in Group undertakings £</b>	<b>Total</b>
At 1 January 2006	478,936	472,945	951,881
Additions	551,842		551,842
At 31 December 2006	<u>1,030,778</u>	<u>472,945</u>	<u>1,503,723</u>

Investments in group undertakings represent 100% of the issued share capital of Ocean Power Delivery (Portugal) SA, a company incorporated in Portugal, and 30% of the issued share capital and loans of Companhia da Energia Oceanica SA, a company also incorporated in Portugal

At 31 December 2006, the aggregate of the share capital and reserves of these companies was £1,300,890 and £304,523 respectively. For the year ended 31 December 2006 Ocean Power Delivery (Portugal) SA made a loss of £332,215 and Companhia da Energia Oceânica SA made a loss of £115,925

**12 Debtors**

	<b>2006 £</b>	<b>2005 £</b>
Trade debtors	77,342	1,181
Amounts recoverable on contracts		2,109,499
Amounts due from group undertakings		446,074
Other debtors	222,323	176,585
	<u>299,665</u>	<u>2,733,339</u>

**13 Creditors: amounts falling due within one year**

	<b>2006 £</b>	<b>2005 £</b>
Bank loans and overdrafts		7,203
Trade creditors	447,071	3,276,957
Accruals	3,838,912	
Amounts owed to Group undertakings		609
Tax and social security	75,686	153,595
Other creditors	246,013	3,365,054
	<u>4,607,682</u>	<u>6,803,418</u>

In 2005 other creditors included convertible loan notes of £3,346,372 (net of expenses in relation to their issue of £26,768). During 2006 all of the loan notes have been converted into the 'A' share capital of the Company which is included in creditors due after more than one year

**PELAMIS WAVE POWER LIMITED**

**Notes to the Financial Statements**

**For the year ended 31 December 2006**

**14 Creditors: amounts falling due after more than one year**

	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>Restated £</b>
'A' shares	27,548,077	8,163,437
Other creditors	<u>250,000</u>	<u>8,163,437</u>
	<u>27,798,077</u>	<u>8,163,437</u>

The 'A' shares are included as a liability as they may be redeemed, at the option of the holder, at any time after 27 March 2007 by three months notice. The holders of the 'A' shares have waived their right to require redemption before 31 December 2008 and accordingly the liability is included in creditors due after more than one year. The option to redeem does not expire. A premium of 20% is payable upon redemption.

During the year the Company converted all of the loan notes into 462,935 'A' shares of 25p each at £10 per share and issued a further 1,330,000 'A' shares of 25p each for a consideration of £13,300,000.

Included within creditors over one year is a loan from GE Commercial Finance amounting to £250,000. The full amount of the loan, drawn down during the year, was £500,000 and is repayable in 30 equal instalments. The remaining balance of the loan of £200,000 is included within creditors falling due within one year.

**15 Accruals and deferred income**

	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
Deferred government grants	<u>                    </u>	<u>2,105,110</u>

**16 Share capital**

	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>Restated £</b>
<b>Authorised</b>		
900,000 ordinary shares of 25p each	225,000	150,000
3,000,000 'A' shares of 25p each	<u>750,000</u>	<u>175,000</u>
	<u>975,000</u>	<u>325,000</u>
<b>Allotted, called up and fully paid</b>		
Included in share capital		
493,000 ordinary shares of 25p each	123,250	123,250
Included in creditors due after more than one year		
2,393,661 'A' shares of 25p each	<u>598,416</u>	<u>150,182</u>
	<u>721,666</u>	<u>273,432</u>

The Company's 'A' shares are included in the balance sheet as a liability owing to the holders' rights to require their redemption.

# PELAMIS WAVE POWER LIMITED

## Notes to the Financial Statements

For the year ended 31 December 2006

### 17 Share premium and reserves

	Share premium £	Profit and loss £	Total £
At 1 January 2006 per prior year accounts	7,294,128	(3,730,315)	3,563,813
Adjustment in respect of change of depreciation policy		(155,630)	(155,630)
Adjustment in respect of change of treatment of A shares	(7,216,105)	(797,150)	(8,013,255)
Restated balance at 1 January 2006	78,023	(4,683,095)	(4,605,072)
Loss for the year		(23,624,393)	(23,624,393)
Share based payments		161,499	161,499
At 31 December 2006	78,023	(28,145,989)	(28,067,966)

### 18 Operating lease commitments

At 31 December 2006 the Company had annual commitments under non cancellable operating leases as follows

	2006 £	2005 £
<b>Expiring*</b>		
Within one year	13,000	33,790
Between two and five years	70,897	65,354

### 19 Related parties

During the year the Company issued invoices totalling £1,572,602 to its wholly owned subsidiary Ocean Power Delivery – Portugal SA with respect to completion of various progress milestones included within the 31 December 2005 Amounts recoverable under long term contracts balance. In addition, the balance of a loan from the Company to Ocean Power Delivery – Portugal SA was £8,221 (2005 £609)

### 20 Post balance sheet events

During 2007 the Company has raised £14m additional finance by issuing new A shares to its shareholders and directors

### 21 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

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

### 22 Changes in accounting policy

During the year the Company changed its policy relating to the treatment of its 'A' shares to comply with recent amendments to the Financial Reporting Standard for Smaller Entities. Under the Financial Reporting Standard for Smaller Entities, classes of share capital where the relationship between the Company and the shareholders resemble debt rather than equity should be reclassified accordingly. The directors have reviewed the Company's Articles of Association and consider the substance of the agreement between the Company and the holders of the 'A' shares to be that of debt and have thus

# **PELAMIS WAVE POWER LIMITED**

## **Notes to the Financial Statements**

**For the year ended 31 December 2006**

reclassified the shares as creditors falling due after more than one year. As a result of treating 'A' shares as debt, the premium payable on redemption is now charged to the Profit and Loss over the period from issue of shares to earliest potential redemption. The comparative figures in the primary statements have been restated to reflect these changes in policy. The effects of these changes are as follows:

	<b>2006</b> <b>£</b>	<b>2005</b> <b>£</b>
<b>Profit and loss account</b>		
Interest payable and similar charges	2,980,379	369,897
<b>Balance sheet</b>		
Creditors amounts falling due in more than one year	(19,384,639)	(8,163,437)
Share capital	448,233	150,182
Share premium	15,956,027	7,216,105
Profit and loss account	2,980,379	797,150

During the year the Company changed its policy relating to share based payments to comply with the Financial Reporting Standard for Smaller Entities (effective January 2007), adopted early by the Company. The value of options falling due in each year is calculated using the Black Scholes model. The effects of the change in policy are as follows:

	<b>2006</b> <b>£</b>	<b>2005</b> <b>£</b>
<b>Profit and loss account</b>		
Administrative expenses	161,499	405,639
<b>Balance sheet</b>		
Profit and loss account		

During the year the Company also changed its policy relating to tangible fixed asset depreciation. All tangible assets are now depreciated on a straight line basis (previously reducing balance). The directors are of the opinion that this new policy gives a fairer presentation of results and financial position of the Company. The effects of this change in policy are as follows:

	<b>2006</b> <b>£</b>	<b>2005</b> <b>£</b>
<b>Profit and loss account</b>		
Administrative expenses	35,202	118,744
<b>Balance sheet</b>		
Tangible fixed assets	(35,202)	(155,630)
Profit and loss account	35,202	155,630