

ENERNORTH INDUSTRIES INC

Form 6-K

May 28, 2004

Consolidated Financial Statements  
Third Quarter  
March 31, 2004  
(Unaudited)  
(Expressed in Canadian Dollars)

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EnerNorth Industries Inc.  
Consolidated Balance Sheets  
(Expressed in Canadian dollars)

|                           | March 31, 2004<br>(unaudited) | June 30, 2003<br>(audited) |
|---------------------------|-------------------------------|----------------------------|
| <b>ASSETS</b>             |                               |                            |
| Current                   |                               |                            |
| Cash and cash equivalents | \$ 2,615,162                  | \$ 6,729,283               |
| Restricted cash           | 791,746                       | 1,218,070                  |

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|   |                      |                      |
|---|----------------------|----------------------|
| Marketable securities   | 521,039              | 176,804              |
| Receivables   | 3,447,938            | 6,503,464            |
| Inventories   | 650,136              | 713,835              |
| Unbilled revenue  | 590,830              | 1,680,806            |
| Due from co-venturer  | 1,388,019            | 461,150              |
| Prepaid expenses  | 150,431              | 240,725              |
| Investment  | 3,365,000            | -                    |
| <b>Total current assets</b>                                       | <b>13,520,301</b>    | <b>17,724,137</b>    |
| Oil and gas interests (net of accumulated depletion)              | 5,386,218            | 4,444,038            |
| Capital assets (net of accumulated depreciation and amortization) | 3,096,078            | 3,166,786            |
| Investment  | -                    | 3,500,000            |
|   | <b>\$ 22,002,597</b> | <b>\$ 28,834,961</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                       |                      |                      |
| <b>Current</b>  |                      |                      |
| Bank indebtedness   | \$ 430,531           | \$ 2,036,933         |
| Accounts payable and accrued liabilities                          | 3,774,237            | 5,747,414            |
| Due to shareholder (Note 3b)                                      | -                    | 402,419              |
| Current portion of long-term debt                                 | 158,309              | 158,309              |
| Deferred revenue  | 396,984              | 2,399,086            |
| Future income tax liability                                       | 302,900              | 302,900              |
| Oakwell claim (Note 4)  | 8,050,000            | 5,900,000            |
| <b>Total current liabilities</b>                                  | <b>13,112,961</b>    | <b>16,947,061</b>    |
| Long-term debt  | 464,067              | 528,020              |
| Site Restoration  | 114,274              | 106,274              |
| <b>Total liabilities</b>  | <b>13,691,302</b>    | <b>17,581,355</b>    |
| Shareholders' equity  |                      |                      |
| Capital stock (Note 5)  | 43,339,132           | 43,339,132           |
| Deficit   | (35,027,837)         | (32,085,526)         |
| <b>Total shareholders' equity</b>                                 | <b>\$ 8,311,295</b>  | <b>\$ 11,253,606</b> |
|   | <b>\$ 22,002,597</b> | <b>\$ 28,834,961</b> |

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

EnerNorth Industries Inc.  
Consolidated Statements of  
Loss and Deficit  
(Unaudited)  
(Expressed in Canadian  
dollars)

|  | For the nine<br>month period<br>ending March 31 |                    | For the three<br>month period<br>ending March 31 |                    |
|--|---|--------------------|--|--------------------|
|  | 2004  | 2003               | 2004   | 2003               |
| Sales  | \$ 24,554,491                                   | \$ 18,007,207      | \$ 7,731,978                                     | \$ 2,983,333       |
| Cost of sales (including<br>depreciation and depletion<br>of<br>\$472,352; 2003 - \$315,088) | 21,348,235                                      | 15,653,176         | 7,207,910  | 2,573,261          |
| <b>Gross profit</b>  | <b>3,206,256</b>                                | <b>2,354,031</b>   | <b>524,068</b>                                   | <b>410,072</b>     |
| Administrative expenses  | 4,054,219                                       | 3,262,392          | 1,699,729  | 1,255,540          |
| Amortization of capital<br>assets  | 92,128  | 60,544             | 42,496   | 20,217             |
| Interest   | 80,353  | 117,056            | 20,449   | 37,417             |
| Interest on long-term debt   | 36,456  | 36,169             | 11,535   | 10,966             |
|  | 4,263,156                                       | 3,476,161          | 1,774,209  | 1,324,140          |
| <b>Loss before the following</b>   | <b>(1,056,900)</b>                              | <b>(1,122,130)</b> | <b>(1,250,141)</b>                               | <b>(914,068)</b>   |
| Oakwell claim  | (2,150,000)                                     | -                  | (547,000)  | -                  |
| Other income   | 264,589   | 144,195            | 36,718   | 42,389             |
| <b>Net loss before tax</b>   | <b>(\$2,942,311)</b>                            | <b>(\$977,935)</b> | <b>(\$1,760,423)</b>                             | <b>(\$871,679)</b> |
| Income taxes<br>Future   | (160,018)                                       | -                  | (461,101)  | -                  |

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|  |                |                |                |                |
|--|----------------|----------------|----------------|----------------|
| Utilization of loss carryforwards                      | 160,018        | -              | 461,101        | -              |
| -  | -              | -              | -              | -              |
| Net loss   | (\$2,942,311)  | (\$977,935)    | (\$1,760,423)  | (\$871,679)    |
| Deficit, beginning of period                           | (32,085,526)   | (24,038,050)   | (33,267,414)   | (24,144,306)   |
| Deficit, end of period                                 | (\$35,027,837) | (\$25,015,985) | (\$35,027,837) | (\$25,015,985) |
| Net loss per Common Share                              |                |                |                |                |
| Net loss per share                                     | (\$0.72)       | (\$0.24)       | (\$0.43)       | (\$0.21)       |
| Weighted average common shares outstanding (thousands) | 4,059          | 4,059          | 4,059          | 4,059          |
| Fully Diluted net loss per Common Share                |                |                |                |                |
| Net loss per share                                     | antidilutive   | antidilutive   | antidilutive   | antidilutive   |

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

EnerNorth Industries Inc.  
Consolidated Statements of  
Cash Flows  
(Unaudited)  
(Expressed in Canadian  
dollars)

For the nine month period  
ending March 31  
2004

2003

For the three month period  
ending March 31  
2004

2003

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| Cash provided by (used in)   |               |             |               |             |
|--|---------------|-------------|---------------|-------------|
| Operating activities   |               |             |               |             |
| Net loss   | (\$2,942,311) | (\$977,935) | (\$1,760,423) | (\$871,679) |
| Adjustments to reconcile net loss to net cash provided by operating activities |               |             |               |             |
| Amortization and depletion   | 564,480       | 375,632     | 179,692       | 127,116     |
| Oakwell claim  | 2,150,000     | -           | 547,000       | -           |
| Unrealized foreign exchange loss on investment                                 | 135,000       | -           | -             | -           |
| Gain on sale of marketable securities  | (14,628)      | (61,165)    | -             | (970)       |
|  | (107,459)     | (663,468)   | (1,033,731)   | (745,533)   |
| Net change in non-cash working capital   |               |             |               |             |
| Receivables  | 3,055,526     | 2,190,001   | 2,302,372     | 3,287,990   |
| Inventories and unbilled revenue   | 1,153,675     | 1,548,499   | (102,648)     | 38,758      |
| Prepaid expenses   | 90,294        | (99,404)    | 41,748        | (45,459)    |
| Accounts payable and accrued liabilities                                       | (1,973,177)   | (2,555,841) | (70,132)      | (1,930,513) |
| Restricted cash  | 426,324       | -           | 426,324       | -           |
| Deferred revenue   | (2,002,102)   | -           | (1,765,661)   | -           |
|  | 643,081       | 419,787     | (201,728)     | 605,243     |
| Financing activities   |               |             |               |             |
| Bank indebtedness  | (1,606,402)   | (311,323)   | (582,890)     | (827,158)   |
| Repayment of long term debt  | (85,439)      | (142,507)   | 858           | (47,133)    |
| Repayment to shareholders  | (402,419)     | (315,927)   | -             | (2,581)     |
| Issue of common shares   | -             | 1,242,400   | -             | (745)       |
|  | (2,094,260)   | 472,643     | (582,032)     | (877,617)   |
| Investing activities   |               |             |               |             |
| Purchase of capital assets   | (136,867)     | (102,295)   | (82,616)      | (53,285)    |
| Oil and gas interests  | (1,253,926)   | (204,712)   | (463,705)     | (166,407)   |
| Due from co-venturer   | (942,542)     | (992,459)   | (329,771)     | (31,356)    |
| Marketable securities  | (329,607)     | 159,854     | (31,500)      | (17,103)    |
|  | (2,662,942)   | (1,139,612) | (907,592)     | (268,151)   |

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|                             |                     |                     |                     |                     |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|
| Increase (decrease) in cash | (4,114,121)         | (247,182)           | (1,691,352)         | (540,525)           |
| Cash, beginning of period   | 6,729,283           | 5,610,621           | 4,306,514           | 5,903,964           |
| <b>Cash, end of period</b>  | <b>\$ 2,615,162</b> | <b>\$ 5,363,439</b> | <b>\$ 2,615,162</b> | <b>\$ 5,363,439</b> |

Cash, end of period consists of:

|                    |              |              |              |              |
|--------------------|--------------|--------------|--------------|--------------|
| Cash               | \$ 1,359,989 | \$ 1,624,160 | \$ 1,359,989 | \$ 1,624,160 |
| Money market funds | \$ 1,255,173 | \$ 3,739,279 | \$ 1,255,173 | \$ 3,739,279 |

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

EnerNorth Industries Inc.  
Notes to Unaudited Consolidated Financial Statements  
For the Nine Month Period Ending March 31, 2004  
(Expressed in Canadian Dollars)

## 1. Basis of Presentation

These unaudited interim consolidated financial statements have been prepared by management following the same accounting policies and methods of computation as the audited consolidated financial statements for the year ended June 30, 2003. 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, 2003. The unaudited consolidated financial results for the nine month period ending March 31, 2004 and 2003 include the accounts of the Company and its wholly owned subsidiary M&M Engineering Limited, a Newfoundland and Labrador company, M&M's wholly-owned subsidiary M&M Offshore Limited, a Newfoundland and Labrador company, 10915 Newfoundland Limited, 11123 Newfoundland Limited and the proportionate share of its interests in joint ventures whose business focus is construction, mechanical contracting and steel fabrication. Operating results for the nine months ended March 31, 2004 are not indicative of the results that may be expected for the full year ending June 30, 2004.

## 2. Segmented information

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 nine month and three month periods ending March 31, 2004 and March 31, 2003 are presented in the Consolidated Statements of Segmented Information below:

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For the nine months ending  
March 31, 2004

|  | Industrial & Offshore | Oil & Gas | Corporate   | Total       |
|--|-----------------------|-----------|-------------|-------------|
| Revenue                                  | 24,189,474            | 365,017   | -           | 24,554,491  |
| Interest expense                         | 112,707               | -         | 4,102       | 116,809     |
| Amortization and depletion               | 244,734               | 319,746   | -           | 564,480     |
| Net earnings (loss)                      | 835,677               | 45,271    | (3,823,259) | (2,942,311) |
| Capital assets and oil and gas interests | 3,096,078             | 5,386,218 | -           | 8,482,296   |

For the nine months ending  
March 31, 2003

|  | Industrial & Offshore | Oil & Gas | Corporate   | Total      |
|--|-----------------------|-----------|-------------|------------|
| Revenue                                  | 17,534,660            | 472,547   | -           | 18,007,207 |
| Interest expense                         | 149,505               | -         | 3,720       | 153,225    |
| Amortization and depletion               | 194,968               | 180,664   | -           | 375,632    |
| Net earnings (loss)                      | 147,947               | 41,759    | (1,167,641) | (977,935)  |
| Capital assets and oil and gas interests | 2,766,627             | 4,424,126 | -           | 7,190,753  |

For the three months ending  
March 31, 2004

|                            | Industrial & Offshore | Oil & Gas | Corporate   | Total       |
|----------------------------|-----------------------|-----------|-------------|-------------|
| Revenue                    | 7,624,867             | 107,111   | -           | 7,731,978   |
| Interest expense           | 31,524                | -         | 460         | 31,984      |
| Amortization and depletion | 96,158                | 83,534    | -           | 179,692     |
| Net earnings (loss)        | (420,291)             | 179,792   | (1,519,924) | (1,760,423) |

For the three months ending  
March 31, 2003

|         | Industrial & Offshore | Oil & Gas | Corporate | Total     |
|---------|-----------------------|-----------|-----------|-----------|
| Revenue | 2,775,600             | 207,733   | -         | 2,983,333 |

|                            |           |        |           |           |
|----------------------------|-----------|--------|-----------|-----------|
| Interest expense           | 47,556    | -      | 827       | 48,383    |
| Amortization and depletion | 67,123    | 59,993 | -         | 127,116   |
| Net earnings (loss)        | (451,465) | 68,416 | (488,630) | (871,679) |

**EnerNorth Industries Inc.**  
**Notes to Unaudited Consolidated Financial Statements**  
**For the Nine month period ending March 31, 2004**  
**(Expressed in Canadian Dollars)**

**3. Related Party Transactions**

(a) During the nine month period ending March 31, 2004 a director of the Company was paid US\$35,000 (approximately Cdn\$45,868) under a nine month consulting agreement that commenced September 1, 2003.

(b) During the nine month period ending March 31, 2004 the Company repaid \$402,419 to a shareholder and a director of the Company.

These transactions were in the normal course of business and were measured at the exchange amount.

**4. Subsequent Events**

In April 2004 the Court of Appeal of the Republic of Singapore dismissed the Company's Appeal with costs. The Appeal was related to a Judgment against the Company dated October 16, 2003 in the amount of US\$5.42 million plus certain legal costs. To date, the Company has accrued Cdn\$8.1 million of costs related to this Judgment.

**5. Share Capital**

(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 |
|--|--|---|---------------|



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|                               |           |    |            |
|-------------------------------|-----------|----|------------|
|                               |           |    |            |
| Balance, as at June 30, 2003  | 4,059,009 | \$ | 43,339,132 |
|                               |           |    |            |
|                               |           |    |            |
| Balance, as at March 31, 2004 | 4,059,009 | \$ | 43,339,132 |
|                               |           |    |            |

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

| Exercise Price | Expiry Date       | 2004 #  | 2003 #  |
|----------------|-------------------|---------|---------|
|                |                   |         |         |
| US\$ 1.80      | December 31, 2004 | 533,332 | 533,332 |
|                |                   |         |         |
|                |                   | 533,332 | 533,332 |
|                |                   |         |         |

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

| Exercise Price | Expiry Date     | Holder                  | 2004 # | 2003 # |
|----------------|-----------------|-------------------------|--------|--------|
|                |                 |                         |        |        |
| \$12.00        | June 14, 2005   | Consultant              | -      | 7,000  |
|                |                 |                         |        |        |
| \$18.90        | January 8, 2006 | Directors and employees | -      | 91,333 |
|                |                 |                         |        |        |
|                |                 |                         | -      | 98,333 |
|                |                 |                         |        |        |