



Global Thermoelectric Inc.

Annual Information Form

For the Year Ended December 31, 2002

May 6, 2003

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THE CORPORATION

Global Thermoelectric Inc. (the “Corporation”) was originally incorporated as Global Thermoelectric Power Systems Ltd. on March 10, 1975 and was continued under the *Business Corporations Act* (Alberta) on December 30, 1983. On April 1, 1985, the Corporation amalgamated with its wholly-owned subsidiary, Rigtronics Systems Ltd. Pursuant to Articles of Amendment dated April 8, 1991, the Corporation changed its name to Global Thermoelectric Inc.

On September 17, 2001, the Corporation incorporated Global Thermoelectric Corporation, a wholly-owned subsidiary, in the state of Delaware, United States. Global Thermoelectric Corporation markets and sells thermoelectric generators in the U.S. and has a sales office located in Houston, Texas.

The head office and registered office of the Corporation is located at 4908 – 52nd Street S.E. Calgary, Alberta T2B 3R2.

BUSINESS OF THE CORPORATION

The Corporation is focused on the development and commercialization of solid oxide fuel cell (“SOFC”) products. It is also engaged in the development, manufacture and sale of thermoelectric power generators for remote power applications.

Fuel cells combine hydrogen and oxygen electrochemically to produce electricity, heat and water. Hydrogen is obtained from hydrocarbon fuels such as natural gas, propane and gasoline. In the case of the Corporation’s fuel cells, these hydrocarbon fuels can be used with minimal external “reforming” (see “Narrative Description of the Business—How Fuel Cells Work”). Utilizing electrochemical reactions to produce electricity results in a more efficient use of fuel while producing less environmentally harmful emissions such as nitrous oxides. In addition, the scalability of fuel cell designs for distributed or decentralized power production provides an economic alternative to large, capital intensive power generation facilities. The ability to capture and utilize the heat produced by the fuel cell also contributes to higher fuel efficiencies. These advantages are important with the advent of deregulation within the power industries of North America. Greater fuel efficiencies and fuel cells’ compatibility with a hydrogen fuel infrastructure also address concerns related to energy security in the United States. Fuel cells can also be utilized in transportation applications as replacements or supplements to the internal combustion engine.

Thermoelectric generators produce electricity directly from heat and are utilized for remote power applications in the pipeline, oil and gas and telecommunication industries.

GENERAL DEVELOPMENT OF THE BUSINESS

General

After being incorporated, the Corporation’s business was concentrated mainly on funded and contract research activities, and by 1993, the Corporation had refined its focus to the manufacture and sale of thermoelectric generators and air heaters for military vehicles.

In early 1997, as part of its ongoing effort to enhance its power generator product line, the Corporation researched available fuel cell technologies. In July 1997, the Corporation signed a Memorandum of Agreement with Forschungszentrum Jülich (“Jülich”) for a worldwide non-exclusive licence to review Jülich’s technology for use in development of a commercially viable fuel cell product line. Jülich is a government funded research organization that has more than 4,500 employees, a budget of approximately \$380 million per year and concentrates on energy related matters including fusion and fuel cell research.

In April 1999, the Corporation reported a series of successes in its efforts to improve upon its fuel cell technology. Increased power output was achieved while operating temperatures were lowered, allowing for the use of lower cost materials in the fuel cell stack assembly. On October 25, 2001, the Corporation announced that it had been released from all existing licensing obligations, including royalty payments to Jülich, for a payment of approximately \$68,000 to Jülich.

In April and August of 1999, the Corporation received two purchase orders for fuel cell stacks from Delphi Automotive Systems (“Delphi”), the world’s largest supplier of automotive components, systems and modules. Delphi utilized the Corporation’s fuel cells in their development project for transportation applications. The Corporation has since completed its work related to these purchase orders.

On July 12, 1999, the Corporation secured a contract worth \$19 million, the largest in the Corporation’s history, to supply the Gas Authority of India with thermoelectric generators and installation services in India.

On October 21, 1999 and November 22, 1999, the Corporation closed Special Warrant financings for gross proceeds of \$12.7 million and \$15.3 million, respectively. In total, 3.3 million Special Warrants were issued that were subsequently exercised for an equal number of common shares of the Corporation for no additional consideration. Proceeds from these equity offerings were earmarked for additional fuel cell development, the establishment of a pilot scale manufacturing plant for fuel cells and fuel cell systems and general corporate purposes.

On February 3, 2000, the Corporation announced that it had successfully tested a fuel cell system prototype for residential power applications. The system incorporated improvements in the Corporation’s fuel cell power output and system design.

On July 31, 2000, the Corporation entered into a strategic alliance with Enbridge Inc. (“Enbridge”) for the supply of natural gas-fuelled fuel cell products suitable for the on-site supply of electric power and heating to homes. Under the terms of the alliance, the Corporation issued Cumulative Redeemable Convertible Preferred Shares, Series 2 (the “Series 2 Preferred Shares”) for gross proceeds of \$25.0 million which was used to fund technology, design and product development work. Enbridge has exclusive distribution rights in Canada to the resulting residential fuel cell products. Under the terms of a joint development agreement, Enbridge will provide input into product designs and assist with regulatory and certification issues related to the launch of commercial products.

On August 22, 2000, the Corporation closed an equity offering of 2,900,000 Special Warrants at \$34.50 each for net proceeds of \$94.6 million. The Special Warrants were exercised for an equal number of common shares for no additional consideration. Proceeds of this financing are being used to accelerate the Corporation’s SOFC research and development program, including the manufacturing and testing of prototype systems.

On December 14, 2000, the Corporation announced the official opening of its SOFC pilot production plant in Calgary, Alberta. The 32,000 ft² facility will enable the Corporation to develop volume-orientated production processes, including the utilization of existing manufacturing technologies adapted from the computer chip industry.

In February 2001, the Corporation relocated its head office and took occupancy of additional fuel cell research and development facilities (comprising 47,000 ft² of combined space) adjacent to its pilot production plant. In January 2002, an additional 24,000 ft² of leased space was added to the research and development area.

Consistent with its strategy of focusing on power generating technologies, including both fuel cells and thermoelectric generators, the Corporation divested of its military heater division on August 24, 2001. In 2001, the Corporation recorded a gain on sale of the heater division of \$0.7 million on sales proceeds of \$2.1 million, reflecting the sale of the division’s fixed assets, goodwill and inventory. As part of the sale agreement, the

Corporation is entitled to receive additional payments from the purchaser based on heater sales over a subsequent five-year period should the purchaser be successful in obtaining a follow-on contract with the U.S. military at specified pricing levels. In conjunction with this sale agreement, the Corporation entered into a supply agreement with the purchaser for the manufacture of certain components of the heater product. During 2002, the Corporation reported \$2.1 million in sales revenue related to these two contracts.

Recent Developments

On April 8, 2003, the Corporation and Quantum Fuel Systems Technologies Worldwide, Inc., a Delaware Corporation ("Quantum"), entered into a combination agreement (the "Combination Agreement") to combine the Corporation with Quantum (the "Combination") in a share exchange pursuant to a plan of arrangement (the "Plan of Arrangement"). On completion of the Combination: (i) common shareholders of the Corporation will become stockholders of Quantum; (ii) the Corporation's outstanding stock options will be exercisable into shares of Quantum common stock; (iii) the Series 2 Preferred Shares will remain preferred shares of the Corporation and Quantum will assume the obligation to issue common stock upon their conversion; and (iv) the Corporation will become a consolidated subsidiary of Quantum.

Upon closing of the Combination, Quantum is expected to integrate the businesses and to significantly reduce the Corporation's level of cash expenditures. Quantum is expected to maintain the Corporation's operations in Alberta, with head office functions consolidated into Quantum's California headquarters. Alan Niedzwiecki, Quantum's President and Chief Executive Officer, and Brian Olson, Quantum's Chief Financial Officer, will lead the combined company in those respective roles. Two members of the Corporation's Board of Directors will join the Quantum board, which board will be expanded to seven members.

Under the terms of the Plan of Arrangement, if approved, the Corporation's common shareholders will receive Quantum common stock for their common shares. The Corporation's common shares will be exchanged for shares of Quantum common stock on the basis of an exchange ratio which is determined by dividing U.S.\$2.628378 by the 20-day volume-weighted average Quantum share price ending three days prior to the Corporation's special meeting of its common shareholders to approve the Plan of Arrangement. The specific exchange ratio will be 0.835 Quantum shares for each common share of the Corporation if Quantum's 20-day volume-weighted average common share price is above U.S.\$3.15 and 1.020 Quantum common shares for each common share of the Corporation if Quantum's 20-day volume-weighted average common share price is below U.S.\$2.57. If Quantum's 20-day volume-weighted common share price is between U.S.\$2.57 and U.S.\$3.15, then the Corporation's common shareholders will receive U.S.\$2.6284 of Quantum common stock for each common share of the Corporation. The Corporation's common shareholders will receive cash in lieu of fractional shares.

The Combination is expected to close in the third quarter of 2003. Closing is subject to the satisfaction or waiver of a number of conditions including the approval of the Plan of Arrangement by not less than 66⅔% of the votes cast by the Corporation's common shareholders at the special meeting described above, the approval of the Combination and other matters by Quantum's stockholders, the approval of the Court of Queen's Bench of Alberta, the approval of Nasdaq and other customary closing conditions.

The Corporation must pay Quantum a termination fee of U.S.\$2,000,000 in cash if: (i) an acquisition proposal in respect of the Corporation is publicly announced or is proposed, offered or made, the securityholders of the Corporation do not approve the Plan of Arrangement and, within twelve months of the termination of the Combination Agreement, the Corporation enters into, directly or indirectly, an agreement, commitment or understanding with respect to such acquisition proposal, an amended version thereof, a competing acquisition proposal or an acquisition proposal solicited in response to the foregoing, or any such acquisition proposal is consummated; (ii) prior to approval of the Corporation's securityholders, Quantum terminates the Combination Agreement because the Corporation has accepted, recommended, approved or implemented a superior proposal; or (iii) Quantum terminates the Combination Agreement because the Corporation's board of directors or any committee thereof: (A) withdraws or modifies adversely to Quantum its advice to the Corporation's common

shareholders or makes a recommendation in favor of any acquisition proposal; or (B) fails to reaffirm its advice within ten days upon request by Quantum or after a competing acquisition proposal is announced, proposed, offered or made, whichever occurs first. Quantum must pay the Corporation a termination fee of U.S.\$2 million upon the occurrence of similar events. In other circumstances where the Combination Agreement is terminated, including the failure of a party's securityholders to approve the Combination, a party may be required to pay the other a fee of U.S.\$900,000 as a reimbursement of expenses.

Each party to the Combination Agreement has the right to terminate the agreement upon the occurrence of certain specified events, including, among other things, the failure of shareholders to approve the Combination, the modification by either board of its advice to shareholders, the recommendation of a superior proposal or the failure to complete the Combination by September 30, 2003.

The Corporation may terminate the Combination Agreement without payment of a termination fee or expense reimbursement if the daily volume-weighted average of Quantum's stock price, calculated in accordance with the Combination Agreement, is less than U.S.\$2.15, calculated on a rolling basis for each trading day during any 15 consecutive trading days after the date of the Combination Agreement until the effective date of the Combination.

On May 6, 2003, Global reduced its workforce in its fuel cell division by approximately one third, or 47 employees, which is expected to result in a reduction of research and development expenses of approximately \$5 million over the next twelve months. During the course of Global's review of alternatives to maximize shareholder value and in conjunction with its efforts to create a sustainable solid oxide fuel cell program, Global determined that it needed to significantly reduce expenditures and to focus on its core competency—the development of solid oxide fuel cell membranes and stack technology. Global believes that this reduction maintains Global's staffing at a level which allows it to continue to focus its efforts on its core technology development while maintaining its prototype system capability.

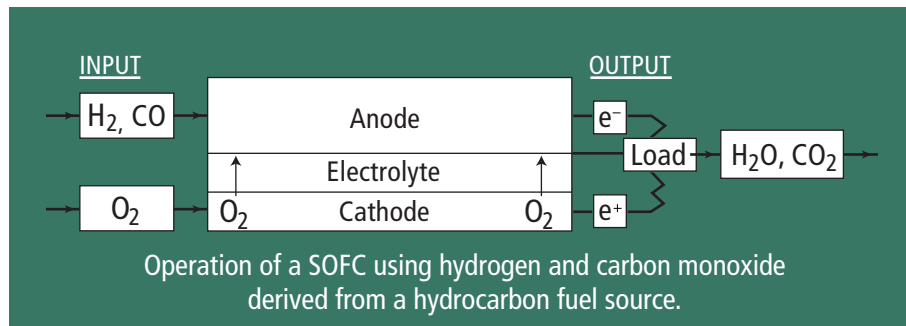
NARRATIVE DESCRIPTION OF THE BUSINESS

Fuel Cells

A fuel cell is an electrochemical device that produces electricity with negligible combustion and without the harmful air contaminants that combustion produces. Hydrogen fuel, which can be derived from natural gas, propane, methanol or gasoline, and oxygen from the air are combined in a fuel cell to produce electricity, with heat and water as the only significant by-products. A fuel cell is more efficient in producing electricity from a fuel than are combustion-based technologies. A fuel cell converts fuel directly into electrical energy through an electrochemical reaction and, in the case of the Corporation's fuel cells, operating efficiencies of about 35 to 45 percent may be possible. When heat from the fuel cell is utilized, operating efficiencies of up to 85 percent may be possible. As fuel cells operate with virtually no combustion, they do not produce the airborne pollutants which are a major by-product of combustion-based sources of electricity.

How Fuel Cells Work

The following diagram illustrates the operation of the Corporation's fuel cell membrane.



A SOFC membrane consists of three main solid parts: anode, cathode, and an electrolyte. The anode and cathode are porous and allow only certain gases to pass through them. Between the two is an electrolyte (which conducts electricity) that will only allow oxygen ions to pass through from the cathode to the anode. The oxygen ion combines with hydrogen to form water, heat, and electricity, or with carbon monoxide to form carbon dioxide as well as electricity and heat. As the oxygen ion passes through the electrolyte, the resulting excess of electrons on the anode side completes an electrical circuit through an external load to the electron deficient cathode side for the production of a flow of electrons or electricity. Fuel cell membranes are layered on top of each other separated by interconnects to form a fuel cell stack. The Corporation is currently developing fuel cell stacks that comprise five to 20 fuel cell membranes.

Fuel Cell Systems

A fuel cell system encompasses various processes and components. Raw fuel is passed through a reformer, which releases the hydrogen from the fuel before it enters the fuel cell stack. In some types of fuel cell technologies (see "—Fuel Cell Technology") this reforming process is a separate and equipment intensive process. In the Corporation's fuel cells, this reforming is relatively inexpensive as the fuel cell itself contributes to the reforming process by virtue of its operating temperature. A less complicated and less costly external reforming process is therefore required in the Corporation's fuel cell system. The fuel cell stack, comprised of multiple fuel cell membranes, produces DC electricity which, depending on the application, is then used directly or converted to AC power by means of an inverter. To increase the efficiency of the fuel cell, heat can be captured from the stack through the utilization of a heat exchanger. As a result of operating in temperatures ranging from 600-750°C degrees, heat produced from the Corporation's fuel cell system is easily utilized compared to heat produced from certain other fuel cell technologies that operate at much lower temperatures.

Fuel Cell Technology

Fuel cells are typically classified by the electrolyte material they utilize. The following are the most known types:

Alkaline fuel cells were utilized as early as the 1960s by NASA in the Apollo program to power spacecraft electrical systems. As these fuel cells require pure hydrogen and pure oxygen (or air from which carbon dioxide has been removed) to operate, their applications are generally considered limited.

Phosphoric acid fuel cells are the most commercially developed fuel cells for stationary power applications. They are currently being deployed in a number of installations throughout Japan, Europe and the United States in

mid to large stationary power applications and operate at temperatures of about 200°C. The corrosive nature of their electrolyte material and system complexity has negatively impacted their operating cost and life.

Molten carbonate fuel cells utilize a molten electrolyte and operate at about 650°C. They can be operated on internally reformed fuels, making them suitable for stationary power applications. These type of fuel cells are currently operating in various locations around the world, in large capacity installations.

Proton exchange membrane (“PEM”) fuel cells, which are also referred to as polymer electrolyte membrane fuel cells, utilize a solid polymer (or plastic) electrolyte. These fuel cells have received a significant commercialization effort in the last five years by some of the largest companies in the fuel cell industry. They operate at relatively low temperatures, of around 80°C. Currently, this type of fuel cell is being utilized in urban buses on a trial basis and prototypes have been developed for residential co-generation, vehicle propulsion and light industrial applications. However, sophisticated fuel reforming is required if hydrocarbon based fuels are to be utilized as PEM fuel cells require virtually pure hydrogen on which to operate.

Solid oxide fuel cells utilize a ceramic material as an electrolyte and operate at temperatures between 600 and 1000°C. SOFCs, because of their operating temperatures, can operate on fuels such as natural gas and propane without the need for costly external reforming of their fuel. In addition, they can tolerate greater amounts of impurities, such as sulphur, which is often found in such fuels as natural gas. These impurities need to be virtually eliminated in PEM fuel cell systems to avoid serious degradation of fuel cell materials. In addition, SOFCs can utilize carbon monoxide in the fuel mixture without destroying the efficacy of the fuel cell membrane. Utilizing high quality heat produced by the fuel cell system for heating water and space heating significantly enhances the overall fuel efficiency of SOFCs. Conversely, higher operating temperatures in SOFCs, compared to PEM fuel cells, generally require longer warm up periods before electricity can be produced. The Corporation is currently developing and commercializing SOFC products.

Fuel Cell Markets

In general, fuel cells have applications in three distinct markets, stationary and portable power generation, and the transportation industry. Stationary power involves the generation of electrical power for residential, light industrial and large commercial purposes. In each of these areas, utilizing heat generated as a by-product of the fuel cell adds to their economic efficiency compared to conventional power sources. In the transportation industry, fuel cells are being developed for propulsion systems in automotive applications and also for auxiliary power alongside the internal combustion engine for enhanced fuel economy and reduced emissions.

a) Stationary and Residential Power

The electrical power industry is currently being influenced by a number of factors that have encouraged fuel cell development.

Deregulation

The electrical utility industry throughout North America is currently in various stages of being deregulated which has increased competition for more economic and scalable power generation solutions. In general, deregulation will give consumers the ability to choose their supplier of electrical power and the means by which it is generated. Currently, most electricity for mass consumption is produced by coal, oil and natural gas fired generators, hydroelectric facilities and nuclear power plants. Generating electricity from fossil fuels is relatively inefficient as much of the energy produced is lost in the form of heat. In addition, combustion of these fuels is an inherently less efficient method of producing electricity than the electrochemical reaction utilized by fuel cells. Further inefficiencies are encountered in conventional power generation due to extensive transmission and distribution infrastructures required where as much as 16% of electrical power may be lost. Distributed power generation utilizing fuel cells for residential power and heat applications overcomes these inefficiencies. Under a

climate of deregulation, on-site utilities also may have the opportunity to participate in distributed power applications as a number of fuel cell technologies have the ability to utilize natural gas as a source of hydrogen fuel. With a natural gas distribution network to residences and commercial sites, these gas utilities could increase the amount of natural gas sold to consumers utilizing their existing distribution infrastructure.

Increase in power consumption

Electricity consumption is increasing throughout North America and the world. The prolific growth in computer use is contributing to this consumption growth. Fuel cells are seen as a method of meeting this increased demand.

Increase dependence on reliability

Concern about the reliability of electrical power is increasing as a number of areas in Canada and the United States are experiencing shortages or “brown outs” during peak consumption periods. With the prospect of deregulation, existing utilities in regulated regions may be hesitant to commit to significant capital expenditures, the economics of which have yet to be determined. On-site fuel cell systems avoid the significant capital costs of centralized generating plants together with their associated transmission and distribution infrastructure.

The trend towards an information economy driven by the tremendous growth in internet use and the resultant economies that have emerged from this use, has created a need for an extremely reliable power supply. Interruptions to this supply are having more costly economic effects than ever before. In certain applications power reliability may have to improve to 99.9999% from its estimated current reliability of 99.9%. Fuel cells may be the source of this improved reliability and a means to avoid the increasing shortages identified above.

Increase in demand for remote power

The growth in rural and recreation homes that do not have access to power from an existing grid has created an increasing demand for remote power supplies. In addition, growth in the telecommunication industry has created an increasing need for power for remote telecommunication repeater stations for example. Fuel cells are seen as a potentially cost-effective and reliable source of power in the absence of access to existing power grids.

Environmental concern and regulation

In Canada and the United States, environmental regulators have enacted legislation that requires a reduction in power plant emissions including sulphur and nitrogen oxides, which cause acid rain. The 1997 Kyoto Agreement will require reductions in greenhouse gas emissions in those countries that ratify their participation. Fuel cells emit much less carbon dioxide and negligible amounts of other greenhouse gases compared to conventional power generating facilities that rely on the combustion of fossil fuels.

Increasing concern of the security of United States energy sources

Geopolitical tensions and conflict in the Middle East, which area accounts for 29% of the U.S.’s crude oil imports, has heightened concern about the reliability and cost of this energy supply. Power generating technologies that increase the efficiency of oil and gas consumed, and alternatively technologies that are fuelled with hydrogen instead of conventional hydrocarbon fuels, are seen as being manners in which this concern may be addressed in the future.

b) Transportation Markets

The transportation sector is currently viewed as a major contributor to air pollution. In the United States, two thirds of petroleum consumption is attributable to transportation purposes. Reducing environmentally

damaging emissions while achieving more efficient use of fossil fuels has been the objective of recent government regulations, particularly in the United States. Beginning in 2005, ten percent of a manufacturer's new car sales in the State of California must be zero and low emission vehicles.

In addition to use as a primary propulsion device for automobiles and commercial vehicles, fuel cells can be utilized as auxiliary power alongside the conventional internal combustion engine in transportation applications. The efficiency of an internal combustion engine is limited by the laws of thermal dynamics and efficiency losses through the transfer of thermal energy to mechanical energy. In addition, recent innovations in automobile technology have resulted in higher electric power requirements, today generated via the internal combustion engine. Utilizing fuel cells, which are inherently more efficient while producing less harmful emissions, is seen as an alternative source of electricity for these applications.

Fuel Cell Strategy

The Corporation's primary objective is the commercialization of SOFC systems for residential, commercial, and light industrial power applications. Remote power applications, where accessibility to conventional power supplies is limited, are viewed by the Corporation as the most likely immediate application of its fuel cell technologies.

The Corporation's fuel cell commercialization strategy involves two primary objectives:

a) Technical and Product Development

The Corporation has made significant proprietary improvements to the SOFC technology as follows:

- The Corporation has developed new generation SOFC membranes that have demonstrated considerably improved power output per unit of area. At operating temperatures of 750°C, the Corporation has improved power output by 850 percent compared to its initial fuel cell design. On July 16, 2002, the Corporation was awarded its first U.S. patent covering the design and composition of its fuel cell membrane, which facilitates these high power densities.
- Through improved fuel cell membrane and stack designs, the Corporation has improved the operating reliability of these critical components of the fuel cell system. Long-term testing (in excess of 2,600 hours) has demonstrated that a stack service life of 12,000-15,000 hours of continuous operation can be projected. Long-term testing lasting over a year in duration has also confirmed that the Corporation's cell membrane may be expected to have a service life of approximately 25,000 hours or nearly three years.
- In 2002, the Corporation manufactured five natural gas prototype fuel cell systems (model "RP-2"). Between May 2002 and the end of March 2003, the five RP-2 systems collectively operated for approximately 14,200 hours with one system achieving over 4,100 hours of operation. The RP-2 design also demonstrated a net peak AC electrical efficiency (after deducting all parasitic electrical losses) of 29 percent and peak power output of 2.9 kW using the Corporation's latest stack design.
- The Corporation's improved fuel cells and assemblies are capable of producing significant amounts of power at temperatures in the 700°C to 750°C range. This lower temperature capability allows fuel cell power systems to be assembled using the new generation membranes and common stainless steel alloys, rather than the expensive and difficult to machine exotic alloys that are generally required by higher temperature SOFC systems.
- The Corporation has developed a new compressive system to seal the edges of cell membranes to isolate the hydrogen and oxygen flow channels from one another. The Corporation believes that this innovative system will allow the cell stacks to handle vibration and thermal cycling better than other solid oxide systems which use glass seals that have a tendency to crack under such conditions. This system should open up new opportunities in applications where the unit must be cycled. A patent application has been filed on behalf of the Corporation to cover the new compressive sealing system.

- The Corporation has made advances in its cell membrane manufacturing processes by simultaneously co-firing all the layers of the cell membrane. This technique has enabled the Corporation to reduce manufacturing costs of its fuel cell membranes. In the summer of 2001, the Corporation demonstrated a production run of 1,000 cell membranes per week, up from 250 cells per week at the beginning of 2001.

The Corporation actively seeks to protect its intellectual property being developed. It has filed 59 patent applications on 24 separate inventions. All employees and contractors supplying strategic services to the Corporation are required to sign confidentiality agreements governing their non-disclosure obligations.

The ceramic structure and composition of the Corporation's fuel cell membrane facilitates the utilization of existing manufacturing techniques currently being employed in the computer chip industry. The Corporation believes that its ability to utilize existing manufacturing processes provides a significant competitive advantage in the pursuit of reduced fuel cell system manufacturing costs.

Through additional development and commercialization of its technology, the Corporation intends to reinforce the advantages of SOFCs in applications where other fuel cell technologies have been better known. The Corporation believes that the ability to utilize high grade heat to improve fuel efficiency and the avoidance of expensive external fuel reforming, makes the Corporation's SFOC technology better suited to smaller scale stationary power applications than other fuel cell technology. Currently, the Corporation is focusing its development and commercialization efforts on one to 25 kW applications.

b) Strategic Alliances

The Corporation's fuel cell commercialization strategy is to secure additional strategic alliances and partnership relationships for the development and distribution of its future products.

On July 31, 2000, the Corporation entered into a strategic alliance with Enbridge to develop and distribute fuel cell products suitable for the on-site supply of electric power and heating to residential homes. Enbridge, a leader in energy transportation and distribution, owns and operates Canada's largest natural gas distribution company, Enbridge Gas Distribution.

Under the terms of this alliance, Enbridge purchased \$25.0 million of Series 2 Preferred Shares of the Corporation to fund further residential fuel cell commercialization. Enbridge is working with the Corporation to provide commercial input into the product design and development phase with respect to the residential market, and will have exclusive distribution rights for the resulting products in Canada. The Corporation retains control over the development process and owns the technology, designs, patents and trademarks. From the Corporation's perspective, strategic alliances, such as the one with Enbridge, provide improved market access to the consumer. In addition, valuable market data can be obtained, a critical element in designing fuel cells for broad market acceptance.

On September 5, 2001, the Corporation signed a Memorandum of Understanding ("MOU") with Suburban Propane L.P. ("Suburban") of Whippany, New Jersey to establish a strategic alliance for developing and distributing SOFC power products in propane markets. Suburban is the U.S.'s third largest propane gas marketer serving approximately 750,000 residential, commercial, industrial and agricultural customers through more than 350 customer service centres in over 40 states.

The Corporation views propane users as early adopters of its products. These potential customers, for a variety of reasons but most often because of remote locations, have unstable or expensive electricity supply and may be more willing to access new technologies sooner than other customers.

Consistent with its focus on propane applications, on January 21, 2002 the Corporation was awarded a grant of up to U.S.\$500,000 by the U.S. Propane Education and Research Council (“PERC”). This award is being used by the Corporation to develop a propane fuel processor, thereby allowing its fuel cell systems to extract hydrogen for their operation directly from propane. PERC was established in 1996 by the U.S. propane industry and is committed to a multi-year, multi-million dollar effort to improve consumer and employee safety, to fund research and development of new and more efficient propane equipment and to expand public awareness of propane and its many uses and environmental advantages. A key objective of PERC’s technology strategy is to develop new end-use technologies to attract new customers and increase sales to the existing customer base. In this regard PERC has identified the development of a propane processor as a key enabling technology. As of December 31, 2002, the Corporation had received U.S.\$350,000 of the contract award based on work completed.

On February 19, 2002, the Corporation announced the signing of an MOU that would facilitate Superior Propane Inc. (“Superior Propane”) joining the Corporation’s alliance with Enbridge. By sublicensing certain distribution rights in Canada from Enbridge, Superior will be involved in targeting the early adopter market identified above. Superior Propane is Canada’s largest and only national marketer of propane, propane appliances and related support services with over 300,000 customers.

As part of its North American initiative to develop additional distribution channels and partners, on October 10, 2001, the Corporation announced it had signed an MOU with Citizens Gas (“Citizens”) of Indianapolis, Indiana. On August 15, 2002, the Corporation signed a definitive agreement based on the MOU. The definitive agreement anticipates the creation of a project to modify the Corporation’s SOFC system for Citizens’ specific market as well as engaging Citizens to distribute the Corporation’s future products. Citizens is the sole natural gas distributor in Indianapolis, Indiana with over 262,000 residential, commercial and industrial customers. Citizens is a Public Charitable Trust established more than 100 years ago for the sole benefit of the residents of Marion County and Indianapolis.

On January 29, 2002, the Corporation announced that it had signed an MOU with Bonneville Power Administration (“Bonneville”) to establish a strategic relationship for the purposes of developing, evaluating and distributing the Corporation’s SOFC systems. Bonneville is also expected to purchase three of the Corporation’s SOFC systems for an anticipated price of U.S.\$240,000 for field testing use. Bonneville is an agency of the U.S. Department of Energy based in Portland, Oregon. Bonneville sells approximately 46% of the electrical power consumed in the Northwestern U.S. To deliver that power, Bonneville owns and operates one of the largest high-voltage electrical transmission systems in the world. Bonneville’s principal service territory includes the states of Oregon, Washington, Idaho and portions of Montana, California, Nevada, Utah and Wyoming. Bonneville has been supporting the development and advancement of new technologies, in particular fuel cells, to promote energy efficiency in its electricity markets.

On July 16, 2002, the Corporation announced that Montana State University-Billings (“MSUB”) in partnership with Montana Dakota Utilities Co. (“MDU”) will be evaluating the Corporation’s fuel cell systems. Under terms of the agreement with MSUB’s Center for Applied Economic Research, within 12 months of the signing date the Corporation will provide a residential natural gas prototype system and a light industrial prototype methane fuelled system for anticipated proceeds of U.S.\$125,000 to the Corporation.

The Corporation’s approach with potential distribution partners is to structure collaboration around specific product groupings with a single set of deliverables and timelines to market. This approach allows the Corporation to maintain a high degree of continuity across its product portfolio and to reduce time to market, development risk and cost. The MOUs that have been signed are at various stages of progression towards establishing the working relationships that the Corporation is seeking.

The Corporation continues its efforts to secure similar strategic alliances in other jurisdictions around the world, with an initial focus on U.S. markets.

Competition

The Corporation's competition in the fuel cell industry can be categorized into two areas: conventional power technologies and improvements thereto; and other fuel cell commercialization companies.

The Corporation intends to initially address stationary fuel cell power generation markets in the one to 25 kW range such as residential, commercial, light industrial and remote power applications. In addition to centralized power producers, major competitors in this segment include suppliers of diesel and natural-gas fuelled generators that produce electricity with internal combustion engines or turbines. The Corporation believes that it has competitive advantages due to the higher efficiencies inherent in its SOFC technologies. In addition, the Corporation's fuel cell systems should operate more quietly than conventional distributed generating equipment and should produce less harmful emissions.

The prospect of fuel cell commercialization has spawned a wide range of entrants into the fuel cell industry. The major competitors include, but are not limited to, Acumentrics Corporation, Alstom, Anuvu Incorporated, Astris Energi Inc., Avista Corporation, Ballard Power System Inc., Ceramtec, Inc., Cellex Power Products Inc., Ceramic Fuel Cell Limited, Chubu Electric Co., Ltd., Cummins Power Generation, DCH Technology, Inc., Dais-Analytic Corporation, Delphi Automotive Systems, Energy Conversion Devices, Energy Partners, L.C., Energy Vision Inc., Forschungszentrum Jülich, FuelCell Energy, Inc., Fuel Cell Technologies Ltd., Fuji Electric Co., Ltd., GE Corporation, General Motors Corporation, Hitachi Electric Co., Ltd., Hyundai, Hydrogenics Corporation, IdaTech Corporation, INDEC Ltd., International Fuel Cell, Kansai Electric Power Co., Kyocera, Manhattan Scientifics, Inc., Matsushita Electric Co., Ltd., McDermott Technology Inc., Millenium Cell, Mitsubishi Electric Corporation, Mitsubishi Electric Industrial Co., Ltd., Company, Motorola, NexTech Materials, Ltd., NuVera Fuel Cells, Inc., Palcan, Plug Power Inc., Proton Energy Systems, Inc., Rolls-Royce, Sanyo Electric Co., Ltd., Siemens-Westinghouse Power Corporation, Sony, Sulzer Hexis AG, Toshiba Corporation, Tokyo Gas Co., Ltd., United Technologies Corporation, ZeTek Power Plc. and ZTEK Corporation.

The Corporation believes that the inherent benefits of its SOFC technology and its commitment to accelerated development and commercialization should provide competitive advantages as compared to other fuel cell companies.

Thermoelectric Generators

The Corporation's first product line was the manufacture and sale of thermoelectric generators based on technology obtained from the Minnesota Mining and Manufacturing Company. Thermoelectric generation involves the direct conversion of heat energy to DC electric power. The Corporation has developed these thermoelectric generators ("TEGs") into a line of sophisticated products incorporating solid state controls, automatic startup and shutdown, and options such as inverters to supply AC current.

TEGs are used as a source of electrical power in remote areas. Applications include providing power for pipeline cathodic protection systems, telecommunications and remote monitoring systems. The Corporation sells TEGs into both the domestic and international markets. To date, sales have been made to customers in more than 47 countries.

In July 1999, the Corporation received a \$19.0 million order to supply turnkey remote power systems for a pipeline being built for the Gas Authority of India Limited ("GAIL"). This order was the largest in the Corporation's history, and involved 304 thermoelectric generators over 65 sites along a 1,200 kilometre pipeline in India. As of December 31, 2001, the Corporation had completed all of its commitments under this order, and as of June 30, 2002 had collected the full \$19.0 million owing under this contract.

Description

The Corporation offers seven models of stand-alone thermoelectric generators ranging in power output from 15 to 550 watts. Each model is supplied in three or four versions, depending on options such as desired output voltage, automatic shutdown and whether fuelled by propane or natural gas.

Thermoelectric Technology

A thermoelectric generator converts heat directly into electricity. As heat moves from a gas burner through a thermoelectric module, it causes an electric current to flow.

The heart of the Corporation's thermoelectric generators is a hermetically sealed thermoelectric module or "thermopile" that contains an array of lead-tin-telluride semiconductor elements. The durable module provides a chemically stable environment for the thermoelectric materials ensuring a long service life. On one side of the thermopile, a gas burner is installed, while the opposite side is kept cool by aluminium cooling fins or a heat pipe assembly. An operating generator maintains a temperature of approximately 540EC on the hot side and 140EC on the cold side. Without the use of moving parts, the heat flow through the thermopile creates steady DC electricity.

Application

The Corporation's thermoelectric generators are a reliable source of DC power and have a wide range of applications. The generators are easily handled and simple to install and, because they have no moving parts, maintenance requirements are low and reliability is high. The generators are environmentally friendly, operate silently, and can be left at remote sites unattended for 12 or more months without maintenance.

Any application in areas unconnected to a commercial power grid that requires up to 5,000 watts of DC or AC power with infrequent maintenance and high reliability is a potential application for the Corporation's generators. The generators are also often installed as an independent power source to provide a backup to commercial grid power. The primary applications for the Corporation's thermoelectric generators are summarized below:

a) Cathodic Protection

The Corporation's generators are a key component in cathodic protection systems for underground oil and gas well casings and pipelines. The generators add an impressed current to the casing or pipeline and therefore reduce corrosion which could otherwise lead to pipe leaks or breakage and resultant environmental damage.

b) Data Gathering, Control Systems And Environmental Monitoring

The Corporation's thermoelectric generators are used as a power source for data gathering systems which monitor and transmit oil and gas flow rates, volumes and other essential data from remote production facilities and for systems which control key oil and gas production equipment. The generators can also power environmental monitoring equipment such as the hazardous gas detection and warning systems frequently used in oil and gas production operations.

c) Telecommunications and Radio Repeaters

The Corporation believes that the expanding market for cellular phone networks and satellite communications systems will generate increased demand for the Corporation's generators. Thermoelectric generators are capable of providing an economical and reliable power source for the many transmitters, repeaters and translators that are located in remote and rural areas to provide such telecommunication services.

Marketing Strategy

While the original patents for thermoelectric generator electrical technology acquired from Minnesota Mining and Manufacturing Company in 1975 have now expired, the Corporation continues to develop new models to address expanded markets. For example, the Corporation is developing a 500 watt model for natural gas production and drilling applications that require "hazardous proof" certification. The Corporation will continue to keep the internal construction of the generators as proprietary information.

The Corporation emphasizes customer service and support. Its marketing team is comprised of engineers and technicians who are trained to identify customer needs and to design custom solutions. Sales offices are strategically located in Calgary, Alberta and Houston, Texas. The Corporation also has agents or representatives in more than 20 countries. The majority of its U.S. and foreign sales are denominated in U.S. dollars.

For the year ended December 31, 2002, sales outside Canada were approximately 81% of the Corporation's generator revenue (65% for the year ended December 31, 2001; 85% for the nine months ended December 31, 2000). Revenue from GAIL accounted for 11% of the Corporation's generator revenue for the year ended December 31, 2002 (4% for the year ended December 31, 2001; 38% for the nine months ended December 31, 2000).

The Corporation intends to review growth opportunities to expand its generator division's product offerings and geographical presence.

Competition

To the best of the Corporation's knowledge, it is the only commercial manufacturer of thermoelectric generators in the 15 watts to 550 watts power range.

Solar panel technology provides indirect competition to the Corporation's generators; however, the Corporation believes that its thermoelectric generators offer an operating advantage compared to such technology since they require less maintenance, and are more dependable than current solar power industrial applications. In higher power applications, closed cycle vapour turbine technology offered by a Middle East based company is sometimes bid in competition to the Corporation's products. The Corporation believes that its generators are more reliable than that type of device, which has moving parts.

FACILITIES AND EQUIPMENT

The Corporation's head office is located in a leased facility at 4908 52nd Street S.E., Calgary, Alberta. Certain functions of the Corporation's fuel cell division are also located in this facility, which is immediately adjacent to the Corporation's fuel cell pilot production plant situated in leased premises at 4852 52nd Street S.E., Calgary, Alberta. The Corporation's thermoelectric generator division and its subsidiary are located in leased facilities at #9, 3700 78 Ave. S.E., Calgary, Alberta, and at #614, 16760 Hedgcroft, Houston, Texas.

The Corporation also owns a 37,000 square foot facility in Bassano, Alberta for thermoelectric generator manufacturing. The Corporation places a high priority on the quality of its products and has qualified its generator operations for ISO 9002 certification (an internationally recognized quality assurance standard).

RESEARCH AND DEVELOPMENT

The Corporation incurred the following research, engineering and product development costs by operating segment (expressed in thousands of Canadian dollars).

	Year Ended Dec. 31, 2002	Year Ended Dec. 31, 2001	Nine Months Ended Dec. 31, 2000
Fuel cell research, engineering and development	\$22,227	\$13,988	\$4,643
Generator research, engineering and development	1,094	1,099	337
	<u>\$23,321</u>	<u>\$15,087</u>	<u>\$4,980</u>

HUMAN RESOURCES

As at the dates below, the Corporation employed the following numbers of people(1):

	December 31,		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
Fuel cell division	148	144	70
Generator division	101	83	83
Business development	4	7	1
General and administrative	<u>20</u>	<u>25</u>	<u>19</u>
Total	<u><u>273</u></u>	<u><u>259</u></u>	<u><u>173</u></u>

(1) Excludes personnel related to discontinued operations.

As part of its strategy to reduce its cash expenditure levels, on November 19, 2002, the Corporation reduced its staffing levels by 22 positions. These reductions were primarily in general and administrative and other support departments not directly involved in core SOFC development or generator division operations. On May 6, 2003, Global reduced its workforce in its fuel cell division by approximately one third, or 47 employees (see “Narrative Description of the Business—Recent Developments”).

Of the personnel based in Calgary, a significant number have university degrees or technical diplomas (including 12 Ph.D.s), providing the specialized skills that the Corporation requires to carry out its research and development programs.

The Corporation believes its relationship with its employees is strong, notwithstanding the effects of the downsizing initiatives discussed above. Its employees are not represented by a labour union. Each employee is required to sign a non-disclosure and non-competition agreement as a condition of employment. To encourage attainment of medium and long-term corporate objectives, and to promote employee retention, generally all employees participate in the Corporation’s incentive stock option plan.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

	Year ended December 31, 2002	Year ended December 31, 2001	Nine months ended December 31, 2000	Year ended March 31, 2000
	(thousands of Canadian dollars, except per share amounts)			
Statement of Operations Data				
Revenue from continuing operations	\$ 21,770	\$ 15,357	\$ 14,649	\$18,534
Revenue—fuel cell contract research	541	—	—	—
Gross margin—generators	8,651	4,883	3,798	5,313
Investment income	2,899	5,911	3,605	444
Research, engineering and development—net	23,321	15,087	4,980	1,980
Net (loss) earnings from continuing operations	(24,543)	(12,968)	(1,967)	140
Per common share—basic and diluted	(0.89)	(0.49)	(0.09)	0.00
Discontinued operations, net of income tax				
Earnings (loss) from discontinued operations . . .	137	433	(372)	112
Gain on sale of discontinued operations	—	744	—	—
Total discontinued operations, net of income tax	137	1,177	(372)	112
Per common share—basic and diluted	0.01	0.04	(0.01)	0.01
Net (loss) earnings	(24,406)	(11,791)	(2,339)	252
Per common share—basic and diluted	(0.88)	(0.45)	(0.10)	0.01
Preferred share dividends	500	500	482	48
Balance Sheet Data				
Cash and cash equivalents and short-term				
investments	\$ 95,306	\$121,064	\$135,300	\$24,290
Total assets	122,403	146,849	160,675	41,439
Long-term obligations	486	407	630	737
Shareholders' equity	114,465	139,272	151,467	35,085

SELECTED QUARTERLY CONSOLIDATED INFORMATION

	2002				2001			
	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
	(thousands of Canadian dollars, except per share amounts)							
Revenue from continuing operations	\$ 6,047	\$ 5,817	\$ 5,438	\$ 4,468	\$ 3,109	\$ 3,571	\$2,379	\$6,298
Revenue—fuel cell contract research	78	463	—	—	—	—	—	—
Investment income	693	788	753	665	993	1,407	1,636	1,875
Net loss from continuing operations	(6,749)	(4,871)	(6,536)	(6,387)	(5,843)	(2,959)	(3,952)	(214)
Per common share—basic								
and diluted	(0.25)	(0.18)	(0.24)	(0.23)	(0.21)	(0.12)	(0.14)	(0.02)
Net earnings (loss) from discontinued								
operations	137	—	—	—	—	968	(236)	445
Per common share—basic								
and diluted	0.01	—	—	—	—	0.03	(0.01)	0.02
Net (loss) earnings	(6,612)	(4,871)	(6,536)	(6,387)	(5,843)	(1,991)	(4,188)	231
Per common share—basic								
and diluted	(0.24)	(0.18)	(0.24)	(0.23)	(0.21)	(0.09)	(0.15)	0.00

CONSOLIDATED FINANCIAL STATEMENTS
GLOBAL THERMOELECTRIC INC.
December 31, 2002

MANAGEMENT'S RESPONSIBILITY FOR REPORTING

The consolidated financial statements contained in this Annual Information Form have been prepared by management in accordance with Canadian generally accepted accounting principles. The integrity and objectivity of the data in these consolidated financial statements are management's responsibility. Management is also responsible for all other information in the Annual Information Form and for ensuring that this information is consistent, where appropriate, with the information and data contained in the consolidated financial statements.

In support of its responsibility, management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets. Some of the assets and liabilities include amounts which are based on estimates and judgments as their final determination is dependent on future events.

PricewaterhouseCoopers LLP, Chartered Accountants, appointed by the shareholders, have audited the financial statements and conducted a review of internal accounting policies and procedures to the extent required by generally accepted auditing standards and performed such tests as they deemed necessary to enable them to express an opinion on the consolidated financial statements.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its financial reporting responsibilities. The Audit Committee is composed of independent directors who are not employees of the Corporation. The Audit Committee reviews the financial content of the Annual Information Form and meets regularly with management and PricewaterhouseCoopers LLP to discuss internal controls, accounting, auditing and financial matters. The Audit Committee recommends the appointment of the external auditors. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements for issuance to the shareholders.



Peter Garrett
President and Chief Executive Officer



Paul A. Crilly, CA
Vice President, Finance and Chief Financial Officer

AUDITORS' REPORT

February 11, 2003

To the Shareholders of **Global Thermoelectric Inc.**

We have audited the consolidated balance sheet of **Global Thermoelectric Inc.** as at December 31, 2002 and the consolidated statements of operations and accumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2001 and 2000 and for the periods then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated February 22, 2002.

/s/ PRICEWATERHOUSECOOPERS LLP
PricewaterhouseCoopers LLP
Chartered Accountants
Calgary, Canada

AUDITORS' REPORT

To the Directors of **Global Thermoelectric Inc.**

We have audited the consolidated balance sheet of Global Thermoelectric Inc. as at December 31, 2001 and the consolidated statements of operations and accumulated deficit and cash flows for the year ended December 31, 2001 and the nine month period ended December 31, 2000. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2001 and the results of its operations and its cash flows for the year ended December 31, 2001 and the nine month period ended December 31, 2000 in accordance with Canadian generally accepted accounting principles.

Calgary, Canada
February 22, 2002

/s/ ERNST & YOUNG LLP
Chartered Accountants

GLOBAL THERMOELECTRIC INC.
CONSOLIDATED BALANCE SHEETS
(Amounts expressed in thousands of Canadian dollars)

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
ASSETS		
Current		
Cash and cash equivalents	\$ 29,230	\$ 83,370
Short-term investments	66,076	37,694
Accounts receivable (note 3)	4,806	5,155
Inventory (note 4)	3,096	4,220
Prepaid expenses	727	570
Current assets of discontinued operations (note 9)	—	502
	<u>103,935</u>	<u>131,511</u>
Capital assets (note 5)	18,416	15,286
Investment	<u>52</u>	<u>52</u>
	<u>\$122,403</u>	<u>\$146,849</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 7,014	\$ 6,485
Income taxes payable	231	269
Current portion of obligations under capital leases (note 8)	207	233
Current liabilities of discontinued operations (note 9)	—	183
	<u>7,452</u>	<u>7,170</u>
Research and development loan (note 7)	200	200
Site restoration (note 14)	286	—
Obligations under capital leases (note 8)	—	207
Commitments and contingencies (notes 6 and 14)		
Shareholders' equity		
Share capital (note 11)	158,920	158,821
Contributed surplus	725	725
Accumulated deficit	<u>(45,180)</u>	<u>(20,274)</u>
	<u>114,465</u>	<u>139,272</u>
	<u>\$122,403</u>	<u>\$146,849</u>

See accompanying notes

Approved on behalf of the Board of Directors:

/s/ JOHN C. HOWARD

Director

/s/ ROBERT B. SNYDER

Director

GLOBAL THERMOELECTRIC INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT
(Amounts expressed in thousands of Canadian dollars, except per common share amounts)

	Year ended December 31, 2002	Year ended December 31, 2001	Nine months ended December 31, 2000
Revenue—Generators	\$ 21,770	\$ 15,357	\$14,649
Cost of goods sold	13,119	10,474	10,851
Gross margin	8,651	4,883	3,798
Revenue—Fuel cell contract research	541	—	—
Investment income	2,899	5,911	3,605
	<u>12,091</u>	<u>10,794</u>	<u>7,403</u>
Expenses			
Research, engineering and development	23,321	15,087	4,980
Marketing	1,932	1,697	1,193
Business development	2,713	1,119	86
General and administrative	5,291	3,600	1,935
Interest on obligations under capital leases	29	47	55
Foreign exchange gain	(49)	(372)	(276)
Depreciation	2,981	1,807	495
Loss from continuing operations before income taxes	(24,127)	(12,191)	(1,065)
Income taxes (note 10)			
Current	416	777	902
Net loss from continuing operations	(24,543)	(12,968)	(1,967)
Discontinued operations, net of income tax (note 9)			
Earnings (loss) from discontinued operations	137	433	(372)
Gain on sale of discontinued operations	—	744	—
Net loss	(24,406)	(11,791)	(2,339)
Accumulated deficit, beginning of period	(20,274)	(7,983)	(5,162)
Dividends on preferred shares (note 11)	(500)	(500)	(482)
Accumulated deficit, end of period	<u>\$(45,180)</u>	<u>\$(20,274)</u>	<u>\$(7,983)</u>
Basic and diluted net loss per common share from continuing operations (note 13)	\$ (0.89)	\$ (0.49)	\$ (0.09)
Basic and diluted net earnings (loss) per common share from discontinued operations (note 13)	0.01	0.04	(0.01)
Basic and diluted net loss per common share (note 13)	<u>\$ (0.88)</u>	<u>\$ (0.45)</u>	<u>\$ (0.10)</u>

See accompanying notes

GLOBAL THERMOELECTRIC INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts expressed in thousands of Canadian dollars)

	Year ended December 31, 2002	Year ended December 31, 2001	Nine months ended December 31, 2000
Operating activities			
Net loss from continuing operations	\$(24,543)	\$(12,968)	\$ (1,967)
Add (deduct) non-cash items:			
Depreciation	2,981	1,807	495
Site restoration (note 14)	641	—	—
Loss (gain) on disposal of capital assets	16	12	(1)
Net change in non-cash working capital balances (note 15)	2,026	853	953
	<u>(18,879)</u>	<u>(10,296)</u>	<u>(520)</u>
Financing activities			
Proceeds from research and development loan	—	10	100
Repayment of obligations under capital leases	(233)	(249)	(306)
Proceeds on issuance of share capital, net of issue costs (note 11)	99	96	119,203
Preferred share dividends (note 11)	(500)	(500)	(482)
Net change in non-cash working capital balances (note 15)	—	(314)	314
	<u>(634)</u>	<u>(957)</u>	<u>118,829</u>
Investing activities			
Purchase of capital assets	(6,127)	(9,007)	(5,551)
Proceeds on sale of capital assets	—	37	3
Purchase of investment	—	(52)	—
(Purchase) proceeds of short-term investments	(28,382)	93,026	(130,720)
Cash from discontinued operations	456	5,160	(1,751)
Net change in non-cash working capital balances (note 15)	(574)	879	—
	<u>(34,627)</u>	<u>90,043</u>	<u>(138,019)</u>
(Decrease) increase in cash and cash equivalents during the period . . .	(54,140)	78,790	(19,710)
Cash and cash equivalents, beginning of period	83,370	4,580	24,290
Cash and cash equivalents, end of period	<u>\$ 29,230</u>	<u>\$ 83,370</u>	<u>\$ 4,580</u>

Supplemental cash flow information (note 15)

See accompanying notes

GLOBAL THERMOELECTRIC INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands of Canadian dollars, except per common share amounts)

1. NATURE OF OPERATIONS

The principal business of Global Thermoelectric Inc. (the “Company”) is the development and commercialization of power generating equipment based on solid oxide fuel cell technology. The Company’s research, engineering and development expenditures are predominately focused on residential combined heat and power products and small-scale industrial stationary products. The Company also manufactures and distributes thermoelectric generators for remote power needs. The principal applications for thermoelectric generators include natural gas well and pipeline protection systems and remote power for instrumentation, automation and telecommunication systems.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have, in management’s opinion, been properly prepared within the framework of the accounting policies summarized below.

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada (“Canadian GAAP”). A reconciliation of results from operations to United States GAAP (“U.S. GAAP”) is provided in note 18.

Use of Estimates

The timely preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

The Company has estimated the useful lives of capital assets based on an assessment of historical experience, expected lives commonly used by industry participants, and management’s expectations based on the assets’ purpose. Significant changes in assumptions related to the assets’ purpose and changes in the competitive environment could result in impairment of the carrying value of the Company’s capital assets.

The Company has estimated the warranty provision based on historical warranty claims experience of the particular products sold and the terms of the related contracts. As at December 31, 2002, the warranty provision included in current liabilities was \$1,016,465 (December 31, 2001—\$1,048,827). Product customization as well as environmental conditions relating to a product’s operational location could result in actual warranty costs differing from the warranty provision.

Consolidation

These consolidated financial statements include the assets, liabilities, and results of operations of Global Thermoelectric Inc. and its wholly owned subsidiary company, Global Thermoelectric Corporation, a company incorporated under the laws of the State of Delaware.

GLOBAL THERMOELECTRIC INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued) (Tabular amounts in thousands of Canadian dollars, except per common share amounts)

Cash and Cash Equivalents

At December 31, 2002, cash and cash equivalents consist of cash on deposit and short-term interest bearing securities with interest rates ranging from 2.4% to 2.8% maturing within three months of the date of purchase. Interest is accrued in the statement of operations as earned.

Investments

At December 31, 2002, short-term investments consist of government securities, corporate bonds and commercial paper with high credit ratings which have original maturities of three months or more and interest rates ranging from 2.3% to 3.5%. In addition, short-term investments include \$1,716,765 (52,117,946 Indian Rupees) of restricted funds held in India. Upon approval by an India regulatory authority, the Company expects to repatriate these funds from India in 2003. Short-term investments are classified as held to maturity and are recorded at cost.

The long-term investment consists of shares in an entity over which the Company does not exercise control or significant influence. The investment is carried at cost. During the year, in the normal course of operations, the Company purchased at fair market value \$2,495,174 (year ended December 31, 2001—\$2,363,544; nine months ended December 31, 2000—\$1,287,614) of materials and equipment from this entity.

Inventory

Inventories of finished goods and work in progress are valued at the lower of cost, determined on a unit cost basis, and net realizable value. Unit cost includes materials, labour and production overhead. Raw materials and purchased parts are valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

Capital Assets

Capital assets are recorded at cost. Depreciation is applied on a straight-line basis to recognize the cost less estimated salvage value of capital assets, over their estimated useful lives as follows:

Buildings	20 years
Leasehold improvements	3–10 years
Machinery and equipment	3–10 years
Computer hardware and software	3–5 years
Equipment under capital leases	5–20 years

The depreciation of equipment recorded under capital leases is included in depreciation expense in the statement of operations.

The Canadian Institute of Chartered Accountants (“CICA”) issued Section 3063, “Impairment of long-lived assets” which is effective April 1, 2003 on a prospective basis. The Company has chosen to adopt this standard effective January 1, 2002. This standard requires that in cases where undiscounted expected cash flows associated with long-lived assets are less than their carrying value, an impairment loss be recognized. This assessment of recoverability must be tested whenever events or changes in circumstances indicate that the long-lived asset’s carrying amount may not be recoverable. Should the Company determine that an asset’s carrying amount is not recoverable, an impairment loss is recognized based upon the amount by which the carrying amount exceeds the asset’s fair value, or discounted cashflows. Previously, the Company’s policy was to recognize an impairment loss based upon the asset’s undiscounted cashflows. The adoption of this standard did not have any impact on the Company’s current financial position or results or operations, however its impact in future years could be material.

GLOBAL THERMOELECTRIC INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued) **(Tabular amounts in thousands of Canadian dollars, except per common share amounts)**

Goodwill

Effective January 1, 2002, the Company adopted the new CICA Section 3062, “Goodwill and other intangible assets.” Under the new standard, goodwill and certain intangible assets are no longer subject to amortization, but are instead tested at least annually for impairment. The adoption of this standard did not have any impact on the Company’s current financial position or results or operations, however its impact in future years could be material.

Research, Engineering and Development Expenditures

With the exception of those that are capital in nature, research, engineering and development costs are expensed as incurred unless a development project meets the criteria for deferral. No development costs have been deferred as at December 31, 2002.

Included in depreciation expense is \$2,271,000 (year ended December 31, 2001—\$1,350,000; nine months ended December 31, 2000—\$254,000) relating to depreciation of capital assets for research, engineering and development activities.

Government Assistance and Investment Tax Credits

Government assistance is recorded as either a reduction of the cost of the applicable capital assets or credited in the statement of operations as determined by the nature of the assistance. All assistance received was recorded as a reduction to research, engineering and development expense in the applicable period.

Investment tax credits as determined under Canadian tax legislation are accounted for using the cost reduction approach. Credits are recorded, when utilized, as either a reduction of the cost of applicable capital assets or credited in the statement of operations depending on the nature of the expenditures which gave rise to the credits. For the periods presented, no investment tax credits were applied against capital assets or credited in the statement of operations.

Revenue Recognition

Revenue from product sales is recorded on shipment to the customer provided there are no other significant obligations to be fulfilled by the Company and collection is reasonably assured. Service revenue is recognized when the service is performed. Revenue from long-term contracts with multiple deliverable arrangements is recognized as the elements of the contract are delivered based upon their respective fair value. In circumstances where uncertainty exists about customer acceptance relating to certain elements of a contract, revenue is not recognized until acceptance occurs.

Foreign Currency Translation

Effective January 1, 2002, the Company retroactively adopted the amended CICA Section 1650, “Foreign currency translation.” This amendment eliminates the deferral and amortization of gains and losses on long-term foreign currency denominated monetary items. Such gains and losses must now be included in income in the current period. The adoption of this standard did not have any impact on the Company’s current or prior financial position or results of operations.

Consistent with amended CICA Section 1650, monetary assets and liabilities which are denominated in a foreign currency are translated at period end exchange rates. Revenue and expenses are translated at rates of exchange prevailing during the period. All exchange gains and losses are reflected in net loss in the period incurred.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued) (Tabular amounts in thousands of Canadian dollars, except per common share amounts)

The Company's foreign subsidiary is considered financially and operationally integrated and therefore the temporal method of translation of foreign currencies is followed. Monetary items are translated at period end exchange rates; non-monetary items are translated at historical exchange rates; revenue and expense items are translated at rates of exchange prevailing during the period; and, depreciation and amortization are translated at the same exchange rate as the assets to which they relate.

Stock-Based Compensation

The Company has an incentive stock option plan which is described in note 12. No compensation expense is recognized for this plan when stock options are issued. Any consideration paid to the Company on the exercise of stock options is credited to share capital.

Effective January 1, 2002, the CICA introduced "Stock-based compensation and other stock-based payments." This standard requires companies to disclose the impact on earnings as if the fair value based method of accounting for employee stock option plans had been used. Note 12 presents pro forma information with respect to fair value accounting for stock options and includes all options granted by the Company since inception.

Income Taxes

Income taxes are calculated using the liability method of tax allocation. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is recorded to the extent there is uncertainty regarding realization of future tax assets.

Reclassifications

Certain information provided in prior periods has been reclassified to conform with the current period presentation.

3. ACCOUNTS RECEIVABLE

	December 31, 2002	December 31, 2001
Trade receivables	\$3,258	\$4,473
Interest receivable	1,355	325
Other receivables	193	357
	<u>\$4,806</u>	<u>\$5,155</u>

4. INVENTORY

	December 31, 2002	December 31, 2001
Raw materials and parts	\$2,919	\$3,764
Work in progress and finished goods	177	456
	<u>\$3,096</u>	<u>\$4,220</u>

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5. CAPITAL ASSETS

	December 31, 2002		
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 17	\$ —	\$ 17
Buildings	1,481	1,209	272
Leasehold improvements	3,941	949	2,992
Machinery and equipment	17,989	5,175	12,814
Computer hardware and software	3,451	1,737	1,714
Equipment under capital leases	1,206	599	607
	<u>\$28,085</u>	<u>\$9,669</u>	<u>\$18,416</u>

	December 31, 2001		
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 17	\$ —	\$ 17
Buildings	1,455	1,191	264
Leasehold improvements	3,754	570	3,184
Machinery and equipment	13,115	3,524	9,591
Computer hardware and software	2,434	944	1,490
Equipment under capital leases	1,206	466	740
	<u>\$21,981</u>	<u>\$6,695</u>	<u>\$15,286</u>

At December 31, 2002, machinery and equipment includes \$1,240,383 of purchased assets that have not been depreciated as these assets were not commissioned or available for use. The Company expects to commission these assets in early 2003.

6. CREDIT FACILITIES

The Company has an operating line of credit to a maximum of \$20,000,000 and a facility to support contractual guarantees to a maximum of US\$4,000,000 with a Canadian chartered bank. Borrowings under these facilities bear interest at the bank's prime rate, and are repayable on demand. The Company has pledged as collateral a general security agreement over existing and future property of the Company and a hypothecation of funds held on deposit with the bank. At December 31, 2002, letters of guarantee and other guarantees issued pursuant to these facilities totaled US\$2,974,704 (December 31, 2001—US\$2,849,986).

Included in the Company's outstanding guarantees at December 31, 2002 is US\$1,523,471 relating to bid bonds and performance guarantees. These bid bonds and performance guarantees expire between March 2, 2003 and October 31, 2005.

Subsequent to December 31, 2002, the Company has been notified that its outstanding performance guarantees have been reduced by US\$1,164,932.

7. RESEARCH AND DEVELOPMENT LOAN

The loan advanced from the Canadian Department of Natural Resources is non-interest bearing and repayable over a 15 year period starting March 31, 2000 based on 5% of revenues relating to the commercialization of fuel cell technology, up to the original sum received. No amounts have been repaid to date.

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8. OBLIGATIONS UNDER CAPITAL LEASES

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Capital leases, with an average effective interest rate of 8.75%, repayable in monthly installments not exceeding \$21,749 including interest, due at varying dates to December 31, 2003	\$ 207	\$ 440
Less current portion	<u>(207)</u>	<u>(233)</u>
	<u>\$ —</u>	<u>\$ 207</u>

Future minimum lease payments under capital leases are as follows:

2003	\$214
Amount representing interest	<u>(7)</u>
	<u>\$207</u>

9. DISCONTINUED OPERATIONS

On June 18, 2001 (the “measurement date”), the Company signed a letter of intent with a U.S. purchaser for the sale of its military heater business segment. Closing of the transaction was completed on August 24, 2001. For reporting purposes, the results of operations and the financial position of this business segment have been presented as discontinued operations.

Details of the assets and liabilities of the heater business segment are as follows:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Current assets of discontinued operations:		
Accounts receivable	<u>\$ —</u>	<u>\$502</u>
	<u>\$ —</u>	<u>\$502</u>
Current liabilities of discontinued operations:		
Accounts payable and accrued liabilities	\$ —	\$ 46
Warranty provision	<u>—</u>	<u>137</u>
	<u>\$ —</u>	<u>\$183</u>

Based on no warranty claims experienced in 2002, and the previous expiry of contractual warranty periods, the Company recorded a \$136,814 non-cash recovery during the year ended December 31, 2002 relating to its previous warranty liability.

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(Tabular amounts in thousands of Canadian dollars, except per common share amounts)

Additional selected financial information for the heater business segment is as follows:

	<u>Year ended December 31, 2002</u>	<u>Year ended December 31, 2001</u>	<u>Nine months ended December 31, 2000</u>
Revenue	\$ —	\$7,607	\$3,688
Earnings (loss) from discontinued operations prior to the measurement date, net of income tax	—	433	(372)
Recovery of warranty provision, net of income tax	<u>137</u>	<u>—</u>	<u>—</u>
Earnings (loss) from discontinued operations, net of income tax	<u>137</u>	<u>433</u>	<u>(372)</u>
Gain on sale of discontinued operations, net of income tax	<u>—</u>	<u>744</u>	<u>—</u>
Net earnings (loss) from discontinued operations, net of income tax ...	<u>\$ 137</u>	<u>\$1,177</u>	<u>\$ (372)</u>

10. INCOME TAXES

The Company's computation of income tax expense is as follows:

	<u>Year ended December 31, 2002</u>	<u>Year ended December 31, 2001</u>	<u>Nine months ended December 31, 2000</u>
Expected income tax recovery from continuing operations at 39.24% (December 31, 2001—42.12%; December 31, 2000—44.62%)	\$(9,467)	\$(5,135)	\$(475)
Add (deduct):			
Non-deductible expenses	35	32	15
Benefit of tax losses and deductions not recognized	9,432	5,103	460
Foreign income taxes	251	608	590
Large corporations tax	<u>165</u>	<u>169</u>	<u>312</u>
Income tax expense	<u>\$ 416</u>	<u>\$ 777</u>	<u>\$ 902</u>

The Company has available to carry forward the following:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Scientific research and experimental development expenditures	\$51,531	\$25,629
Non-capital losses	\$ 2,684	\$ —
Share issue costs	\$ 3,218	\$ 5,638
Investment tax credits	\$11,694	\$ 6,686

The utilization of investment tax credits will reduce scientific research and experimental development expenditures otherwise available.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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The scientific research and experimental development expenditures can be carried forward indefinitely and applied to reduce taxable income in future years. Non-capital losses and share issue costs can be applied to reduce taxable income in future years and investment tax credits can be used to offset future taxes otherwise payable and expire as follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>
Non-capital losses	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 989</u>	<u>\$1,695</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,684</u>
Share issue costs	<u>\$1,586</u>	<u>\$1,323</u>	<u>\$ 309</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,218</u>
Investment tax credits	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 189</u>	<u>\$ 415</u>	<u>\$ 521</u>	<u>\$1,781</u>	<u>\$3,628</u>	<u>\$5,160</u>	<u>\$11,694</u>

Components of future income taxes

The Company has not recognized net future tax assets as reflected by the valuation allowance reported below. The net future tax asset (current and non-current) comprises:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Investment tax credit carry-forwards	\$ 11,694	\$ 6,686
Scientific research and experimental development expenditures	13,991	6,747
Non-capital losses	943	—
Share issue costs	1,130	2,008
Provision for warranty costs	357	374
Differences between tax base and reported amounts of depreciable assets	(3,432)	(2,729)
Valuation allowance	<u>(24,683)</u>	<u>(13,086)</u>
	<u>\$ —</u>	<u>\$ —</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Tabular amounts in thousands of Canadian dollars, except per common share amounts)

11. SHARE CAPITAL

a) Authorized:

Unlimited number of common shares

Unlimited number of preferred shares, issuable in series

b) Issued and outstanding common and preferred shares:

	<u>December 31, 2002</u>		<u>December 31, 2001</u>		<u>December 31, 2000</u>	
	<u>Number of Shares (000's)</u>	<u>Amount</u>	<u>Number of Shares (000's)</u>	<u>Amount</u>	<u>Number of Shares (000's)</u>	<u>Amount</u>
Common shares:						
Balance, beginning of period	29,005	\$134,557	28,923	\$134,461	25,843	\$ 39,522
Issued on sale and exercise of special warrants	—	—	—	—	2,900	100,050
Share issue costs	—	—	—	11	—	(5,481)
Issued on exercise of options	167	99	82	85	180	370
Balance, end of period	<u>29,172</u>	<u>\$134,656</u>	<u>29,005</u>	<u>\$134,557</u>	<u>28,923</u>	<u>\$134,461</u>
Series 2 preferred shares:						
Balance, beginning of period	1,000	\$ 24,264	1,000	\$ 24,264	—	\$ —
Issued for cash	—	—	—	—	1,000	25,000
Share issue costs	—	—	—	—	—	(736)
Balance, end of period	<u>1,000</u>	<u>\$ 24,264</u>	<u>1,000</u>	<u>\$ 24,264</u>	<u>1,000</u>	<u>\$ 24,264</u>
		<u>\$158,920</u>		<u>\$158,821</u>		<u>\$158,725</u>

Series 2 non-voting preferred shares were issued with the covenant that the proceeds of \$25,000,000 be used for solid oxide fuel cell development, subject to certain restrictions. To December 31, 2002, the Company has expended \$56,109,000 on qualifying expenditures. The preferred shares have a cumulative dividend of 1% to 5% per annum, based on an inverse relationship to the volume weighted average share price of the Company's common shares, determined quarterly. The dividend rate decreases in increments of 1% from the maximum rate of 5% with each \$5.00 increase in the weighted average share price above \$30.96, to a minimum rate of 1%. The preferred shares are convertible at the option of the holder into a lesser number of common shares based on the fraction by which their face value of \$25.00 is of the conversion prices identified below:

<u>Period of conversion</u>	<u>Conversion price</u>
To July 31, 2005	\$30.96
August 1, 2005 to July 31, 2010	\$33.54
August 1, 2010 to July 31, 2015	\$36.12
August 1, 2015 to July 31, 2020	\$38.70
After July 31, 2020	95% of the then current market price

Dividends can be paid at the Company's option with an equivalent number of the Company's common shares based on their current market price during the quarter of dividend accumulation, determined on a previous 20 trading day, volume-weighted, average basis. A minimum of \$500,000 of preferred share dividends must be paid annually. Cumulative unpaid dividends are increased by a 2.45% quarterly rate, compounded quarterly, until

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payment thereof. All cumulative unpaid dividends must be paid by December 31, 2010. The shares are redeemable by the Company at their face value after July 31, 2004, subject to certain conditions.

During the year ended December 31, 2002, the Company declared and paid a dividend of \$500,000 on the Series 2 preferred shares (year ended December 31, 2001—\$500,000; nine months ended December 31, 2000—\$481,910). As at December 31, 2002, dividends in arrears totaled \$1,601,600 (December 31, 2001—\$762,657).

On December 3, 2002, the Company received approval from the Toronto Stock Exchange (“TSX”) to proceed with normal course purchases of its outstanding common shares. During the period commencing December 5, 2002 and ending on December 1, 2003, the Company may acquire up to 1,458,584 common shares, being 5% of its issued and outstanding common shares. Any common share purchases will be purchased at the market price at the time of purchase and will be cancelled and returned to treasury. During the period ended December 31, 2002 no common shares were repurchased.

12. STOCK-BASED COMPENSATION

Under the Company’s Amended Incentive Stock Option Plan (the “Plan”), options to purchase common shares may be granted, at the discretion of the Board of Directors, to directors, officers, employees and consultants of the Company. At December 31, 2002, shares reserved for issuance under the Plan totaled 2,205,667. The exercise prices for options are based on the current trading price of the common shares on the TSX immediately prior to the Board of Directors approving the option grant. These options are typically granted for services provided to the Company and generally vest equally over a three or four year period. The aggregate number of common shares that may be reserved for allotment pursuant to options granted to any one individual may not exceed, at the date of the grant, 5% of the common shares outstanding. The options are non-transferable, and if not exercised, will expire at such time as determined by the Board, but in any event, shall not exceed a period of five years from the date the option is granted. A summary of the Company’s stock options issued to directors, officers and employees is as follows:

	Number of Options (000's)	Weighted Average Exercise Price
Balance March 31, 2000	628	\$ 3.32
Options granted	530	27.58
Options exercised	(180)	2.05
Balance, December 31, 2000	978	16.70
Options granted	978	15.72
Options exercised	(82)	1.05
Options cancelled	(30)	21.40
Balance, December 31, 2001	1,844	16.10
Options granted	817	2.98
Options exercised	(167)	0.59
Options cancelled	(971)	19.58
Balance, December 31, 2002	1,523	\$ 8.54

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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The following table summarizes information about stock options outstanding at December 31, 2002:

Range of Exercise Prices	Number Outstanding at December 31, 2002 (000's)	Options Outstanding		Options Exercisable	
		Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at December 31, 2002 (000's)	Weighted Average Exercise Price
\$ 1.15 to \$ 3.35	619	4.39	\$ 2.34	29	\$ 1.15
\$ 4.66 to \$ 7.60	222	4.13	6.64	33	7.42
\$ 8.60 to \$ 14.00	397	3.15	9.86	154	9.48
\$ 18.55 to \$ 27.00	285	2.98	21.63	104	22.26
\$ 1.15 to \$ 27.00	<u>1,523</u>	<u>3.77</u>	<u>\$ 8.54</u>	<u>320</u>	<u>\$12.65</u>

The following table presents pro forma information with respect to fair value accounting for stock options. The fair value of stock options has been estimated on the date of grant by reference to the Black-Scholes option-pricing model. For the year ended December 31, 2002, the Company assumed that the life of all options granted equals four years, no common share dividends will be paid, average expected volatility of 121.9% (December 31, 2001—126.2%; December 31, 2000—128.4%) and an average risk free interest rate of 3.89% (December 31, 2001—3.50%; December 31, 2000—5.00%). The effects of applying Section 3870 may not be representative of the effects on reported net (loss) income for future years.

	Year ended December 31, 2002	Year ended December 31, 2001	Nine months ended December 31, 2000
Net loss			
As reported	\$(24,406)	\$(11,791)	\$(2,339)
Compensatory fair value of options granted	<u>5,399</u>	<u>5,265</u>	<u>2,078</u>
Pro forma net loss	<u>\$(29,805)</u>	<u>\$(17,056)</u>	<u>\$(4,417)</u>
Basic and diluted pro forma net loss per common share	<u>\$ (1.07)</u>	<u>\$ (0.63)</u>	<u>\$ (0.18)</u>

13. NET LOSS PER SHARE

Net loss per common share is based on the weighted average number of common shares outstanding during the period. The Company utilizes the treasury stock method in the determination of the diluted per common share amounts. Under this method, the diluted weighted average number of common shares amount is calculated on the basis that all stock options and convertible preferred shares were exercised with the related proceeds used to purchase common shares of the Company at their average market price for the period.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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The numerators and denominators used in the calculation of basic net loss per common share are determined as detailed in the following table. Stock options and convertible preferred shares are not included in the denominator as they would be anti-dilutive for the periods presented.

	<u>Year ended December 31, 2002</u>	<u>Year ended December 31, 2001</u>	<u>Nine months ended December 31, 2000</u>
Numerator:			
Net loss from continuing operations	\$(24,543)	\$(12,968)	\$(1,967)
Less: Dividends on preferred shares	500	500	482
Dividends in arrears on preferred shares	839	763	—
	<u>(25,882)</u>	<u>(14,231)</u>	<u>(2,449)</u>
Net earnings (loss) from discontinued operations	137	1,177	(372)
Net loss available to common shareholders	<u>\$(25,745)</u>	<u>\$(13,054)</u>	<u>\$(2,821)</u>
Denominator (000's):			
Number of common shares outstanding at beginning of period	29,005	28,923	25,843
Weighted average number of common shares issued during period	110	38	1,070
Weighted average number of common shares outstanding at end of period	<u>29,115</u>	<u>28,961</u>	<u>26,913</u>

14. COMMITMENTS AND CONTINGENCIES

The Company has entered into future commitments including operating leases for office premises, plant facilities and office equipment with future minimum lease payments for the next five years as follows:

2003	\$ 939
2004	775
2005	735
2006	62
2007	—
	<u>\$2,511</u>

Operating leases relating to the Company's corporate office and fuel cell facilities contain renewal options to extend the leases for two additional five-year periods beyond the current expiry date of January 31, 2006.

Land adjacent to the Company's Bassano manufacturing facility requires remediation as a result of historical operations. Based on an independent assessment, the Company has estimated and provided for current and subsequent restoration and monitoring expenditures of \$640,877. Actual results could differ from estimated amounts.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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15. CHANGE IN NON-CASH WORKING CAPITAL BALANCES; SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Changes in non-cash working capital balances are comprised of the following:

	Year ended December 31, 2002	Year ended December 31, 2001	Nine months ended December 31, 2000
Changes in non-cash working capital:			
Accounts receivable	\$ 349	\$3,520	\$(2,648)
Inventory	1,124	(307)	422
Prepaid expenses	(157)	(352)	68
Accounts payable and accrued liabilities, net of current site restoration	174	(487)	2,468
Income taxes payable	(38)	(551)	624
Deferred revenue	—	(405)	333
	<u>\$1,452</u>	<u>\$1,418</u>	<u>\$ 1,267</u>
Attributable to:			
Operating activities	\$2,026	\$ 853	\$ 953
Financing activities	—	(314)	314
Investing activities	(574)	879	—
	<u>\$1,452</u>	<u>\$1,418</u>	<u>\$ 1,267</u>
Supplemental cash flow information:			
Interest paid	\$ 29	\$ 53	\$ 55
Income taxes paid	<u>\$ 465</u>	<u>\$1,340</u>	<u>\$ 285</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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16. OPERATING SEGMENT INFORMATION

The Company has two operating segments consisting of the development and commercialization of fuel cell technology and the commercial manufacturing and sale of thermoelectric generators. Revenue derived from fuel cells during the year ended December 31, 2002 relates to the development of propane reforming solutions as part of a project funded by the U.S. Propane Education and Research Council.

The accounting policies used in these business segments are the same as those described in the summary of significant accounting policies.

	Year ended December 31, 2002			
	Fuel Cells	Generators	Corporate	Total
Revenue—Domestic	\$ —	\$ 4,100	\$ —	\$ 4,100
—International	—	17,670	—	17,670
	—	21,770	—	21,770
Cost of goods sold	—	13,119	—	13,119
Gross margin	—	8,651	—	8,651
Revenue—Fuel cell contract research	541	—	—	541
Investment income	—	—	2,899	2,899
	541	8,651	2,899	12,091
Expenses				
Research, engineering and development	22,227	1,094	—	23,321
Marketing	—	1,932	—	1,932
Business development	2,496	217	—	2,713
General and administrative	552	677	4,062	5,291
Interest on obligations under capital leases	—	—	29	29
Foreign exchange gain	—	—	(49)	(49)
Depreciation	2,225	508	248	2,981
(Loss) earnings from continuing operations before income taxes	<u>\$(26,959)</u>	<u>\$ 4,223</u>	<u>\$ (1,391)</u>	<u>\$ (24,127)</u>
Capital asset expenditures	<u>\$ 5,628</u>	<u>\$ 233</u>	<u>\$ 266</u>	<u>\$ 6,127</u>
Total assets utilized in the segment	<u>\$ 16,290</u>	<u>\$ 8,350</u>	<u>\$97,763</u>	<u>\$122,403</u>

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	Year ended December 31, 2001			
	Fuel Cells	Generators	Corporate	Total
Revenue—Domestic	\$ —	\$ 5,717	\$ —	\$ 5,717
—International	—	9,640	—	9,640
	—	15,357	—	15,357
Cost of goods sold	—	10,474	—	10,474
Gross margin	—	4,883	—	4,883
Investment income	—	—	5,911	5,911
	—	4,883	5,911	10,794
Expenses				
Research, engineering and development	13,988	1,099	—	15,087
Marketing	—	1,697	—	1,697
Business development	1,103	16	—	1,119
General and administrative	274	489	2,837	3,600
Interest on obligations under capital leases	—	—	47	47
Foreign exchange gain	—	—	(372)	(372)
Depreciation	1,307	337	163	1,807
(Loss) earnings from continuing operations before income taxes	<u>\$(16,672)</u>	<u>\$ 1,245</u>	<u>\$ 3,236</u>	<u>\$(12,191)</u>
Capital asset expenditures	<u>\$ 7,917</u>	<u>\$ 219</u>	<u>\$ 871</u>	<u>\$ 9,007</u>
Total assets utilized in the segment	<u>\$ 13,021</u>	<u>\$10,788</u>	<u>\$122,538</u>	<u>\$146,347</u>

	Nine months ended December 31, 2000			
	Fuel Cells	Generators	Corporate	Total
Revenue—Domestic	\$ —	\$ 2,281	\$ —	\$ 2,281
—International	—	12,368	—	12,368
	—	14,649	—	14,649
Cost of goods sold	—	10,851	—	10,851
Gross margin	—	3,798	—	3,798
Investment income	—	—	3,605	3,605
	—	3,798	3,605	7,403
Expenses				
Research, engineering and development	4,643	337	—	4,980
Marketing	—	1,193	—	1,193
Business development	86	—	—	86
General and administrative	75	162	1,698	1,935
Interest on obligations under capital leases	—	—	55	55
Foreign exchange gain	—	—	(276)	(276)
Depreciation	227	217	51	495
(Loss) earnings from continuing operations before income taxes	<u>\$(5,031)</u>	<u>\$ 1,889</u>	<u>\$ 2,077</u>	<u>\$(1,065)</u>
Capital asset expenditures	<u>\$ 5,196</u>	<u>\$ 256</u>	<u>\$ 99</u>	<u>\$ 5,551</u>
Total assets utilized in the segment	<u>\$ 5,748</u>	<u>\$15,104</u>	<u>\$135,470</u>	<u>\$156,322</u>

GLOBAL THERMOELECTRIC INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued) (Tabular amounts in thousands of Canadian dollars, except per common share amounts)

International revenue includes generator sales and service as follows:

	Year ended December 31, 2002	Year ended December 31, 2001	Nine months ended December 31, 2000
United States	\$ 8,404	\$3,450	\$ 1,916
Asia	4,280	3,784	8,524
South America	2,699	898	1,740
Middle East	2,068	1,151	—
Other international	219	357	188
Total international revenue	<u>\$17,670</u>	<u>\$9,640</u>	<u>\$12,368</u>

Asian revenue includes sales to the Gas Authority of India of \$2,431,000 for the year ended December 31, 2002 (year ended December 31, 2001—\$666,000; nine months ended December 31, 2000—\$7,006,000). In addition, revenue from three other customers exceeded 10% of total revenue during the year ended December 31, 2002. Revenue and location of these three customers are as follows: \$3,704,000—United States, \$2,706,000—United States and \$2,068,000—Middle East.

17. FINANCIAL INSTRUMENTS

a) *Fair values of financial assets and liabilities*

The fair value of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities and income taxes payable approximates their carrying value because of the short-term nature of these instruments. The carrying value of obligations under capital leases and the site restoration liability approximate their fair value. The fair value of the research and development loan is not determinable as the timing of repayment is dependant upon commercial revenue derived from the related technology.

b) *Credit risk*

The Company manufactures thermoelectric generators for sale primarily to customers in the oil and natural gas industry in North America and international locations. The Company generally extends unsecured credit to North American customers, and therefore, the collection of these receivables may be affected by changes in economic or other conditions and may accordingly impact the Company's overall credit risk. Management believes the risk is mitigated by the size, reputation and diverse nature of the companies to which they extend credit. Material international sales are generally secured with letters of credit or by Export Development Canada to reduce risk of material losses on the collection of receivables.

The Company has not previously experienced any material credit losses on the collection of receivables. Of the Company's significant individual accounts receivable at December 31, 2002, approximately 34% were owing from two customers (December 31, 2001—47% from four customers; December 31, 2000—48% from two customers).

c) *Foreign exchange risk*

Foreign exchange risk is the risk that variations in exchange rates between the Canadian dollar and foreign currencies will affect the Company's operating and financial results. The Company earns a significant portion of its operating revenue in U.S. dollars and does not use derivative instruments to reduce its exposure to this foreign exchange risk. For the year ended December 31, 2002, 72% of the Company's revenue was denominated in U.S. dollars (year ended December 31, 2001—63%; nine months ended December 31, 2000—84%).

GLOBAL THERMOELECTRIC INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued) (Tabular amounts in thousands of Canadian dollars, except per common share amounts)

d) *Interest rate risk*

The Company is exposed to interest rate risk in relation to interest income earned on short-term interest bearing securities and short-term investments. At December 31, 2002, the increase or decrease in net earnings for each 1% change in interest rates earned on cash and cash equivalents, and short-term investments amounts to approximately \$953,000 per annum (year ended December 31, 2001—\$1,210,000; nine months ended December 31, 2000—\$1,015,000).

18. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Company's consolidated financial statements have been prepared in accordance with Canadian GAAP, which differs in certain respects from U.S. GAAP. The effects of significant accounting differences on the Company's consolidated statements of operations and accumulated deficit are as follows:

	Year ended December 31, 2002	Year ended December 31, 2001	Nine months ended December 31, 2000
Net loss under Canadian GAAP	\$(24,406)	\$(11,791)	\$(2,339)
Deduct adjustments for:			
Stock-based compensation	(9)	—	—
Net loss and comprehensive loss under U.S. GAAP	(24,415)	(11,791)	(2,339)
Accumulated deficit, beginning of period	(20,274)	(7,983)	(5,162)
Dividends on preferred shares	(500)	(500)	(482)
Accumulated deficit, end of period	<u>\$(45,189)</u>	<u>\$(20,274)</u>	<u>\$(7,983)</u>
Basic and diluted net loss per common share	<u>\$ (0.88)</u>	<u>\$ (0.45)</u>	<u>\$ (0.10)</u>

Stock-Based Compensation

Pursuant to Note 12, the Company has disclosed the effects on reported net loss of the compensatory value of stock options granted using the fair value method. Under U.S. GAAP, the Company has adopted the intrinsic value method of accounting for stock options. Under the intrinsic value method, 347,325 options granted to certain officers and directors in 2002 are subject to variable accounting, resulting in an additional expense under U.S. GAAP of \$9,000 in 2002.

Asset Retirement Obligations

In June 2001, FASB issued FAS 143, "Accounting for Asset Retirement Obligations," effective for years beginning after June 15, 2002. The standard requires legal obligations associated with the retirement of long-lived tangible assets be recognized at fair value. The adoption of this standard does not have any impact on the Company's current financial position or results of operations, however its impact in future years could be material.

Recent Accounting Standards

In November 2002, FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." Interpretation No. 45

GLOBAL THERMOELECTRIC INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Tabular amounts in thousands of Canadian dollars, except per common share amounts)

clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. It also requires additional disclosures be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. The initial recognition and measurement provisions of Interpretation No. 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of this standard is not expected to have a significant impact on the Company's current financial position or results of operations, however its impact in future years could be material.

In July 2002, FASB issued FAS 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement eliminates the definition and requirements of Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)." FAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Such a liability must be measured at fair value. FAS 146 is effective for exit or disposal activities initiated after December 31, 2002. The adoption of this standard does not have any impact on the Company's current financial position or results of operations, however its impact in future years could be material.

In January 2003, FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities." This interpretation is effective for variable interest entities created after January 31, 2003. It applies to all other variable interest entities in which an enterprise holds a variable interest in the first fiscal year or interim period beginning after June 15, 2003. The adoption of this standard does not have any impact on the Company's current financial position or results of operations, however its impact in future years could be material.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis should be read in conjunction with the Corporation's audited consolidated financial statements and related notes.

Forward Looking Statements

Certain statements included in this Annual Information Form may contain forward-looking statements about the Corporation, the development of its technologies, the establishment of its strategic business relationships and its thermoelectric sales projects. Forward-looking statements are statements that are not historical facts and are generally, but not always, identified by the words "expects," "anticipates," "believes," "intends," "estimates," "projects" and similar expressions, or that events or conditions "will," "may," "could" or "should" occur.

These forward-looking statements are subject to various risks, uncertainties and other factors that could cause the Corporation's actual results or achievements to differ materially from those expressed in or implied by such forward-looking statements. These risks, uncertainties and other factors include, without limitation: uncertainty as to the Corporation's ability to successfully implement its business strategy; the risk that development projects and prototypes will not be completed successfully or in a timely manner; a dependence on the contributions and performance of the Corporation's major alliance partners; the ability of the Corporation to successfully negotiate and execute definitive agreements governing its relationships with its major alliance partners; uncertainties as to the availability and cost of financing; the development of competing technologies and the possibility of increased competition; fluctuating energy prices; uncertainties involving government policies and government regulations affecting the Corporation's business; and other factors identified in the other reports filed with securities commissions in Canada and available at www.sedar.com.

Forward-looking statements are based on beliefs, opinions and expectations of the Corporation's management at the time they are made, and the Corporation does not assume any obligation to update its forward-looking statements if those beliefs, opinions or expectations, or other circumstances should change.

Year ended December 31, 2002 as compared to the year ended December 31, 2001

Revenue for the year ended December 31, 2002, totaled \$22.3 million, comprised of thermoelectric generator sales and service revenue of \$21.8 million and revenue from fuel cell contract research of \$0.5 million. Revenue for 2001 was \$15.4 million, which was comprised exclusively of thermoelectric sales and service. During 2002, the Corporation experienced an increase in the volume of its generator products sold in international markets, notably the U.S., South America and the Middle East. Strong revenue growth in these markets offset sluggishness in western Canadian demand for the first three quarters of 2002. The Corporation's markets in Canada are principally driven by natural gas drilling and completion activity.

In the second quarter of 2002, the Corporation received and consequently recognized the remaining revenue of \$2.0 million of a \$19.0 million contract with the Gas Authority of India Limited ("GAIL"). This amount represented the final contractual amount due from GAIL which was contingent on their appraisal of work completed, and its collection reflected the Corporation's operational success in completing this very large and engineering-intensive project.

In August 2001, the Corporation divested its military heater division to a U.S. based manufacturer. As part of the sales agreement, the Corporation negotiated a royalty and supply contract with the purchaser for key components of the heater product. In 2002, the purchaser was successful in obtaining follow-on orders from the U.S. military, which marked the commencement of the Corporation's supply agreement. In 2002, this supply contract generated \$2.1 million of revenue. It is expected that this agreement will provide a multi-year revenue stream to the Corporation, and in the process, add stability to its revenue base which historically has been dependent on securing larger intermittent orders.

The fuel cell division reported revenue of \$0.5 million in 2002 which was derived from the Corporation's contract with the Propane Education and Research Council ("PERC") for contract research on propane-fuelled SOFC applications. The Corporation expects to complete this U.S.\$500,000 contract in the first half of 2003.

A gross margin of \$8.7 million (39.7 percent of revenue) was generated in 2002, an increase of 77 percent compared to the gross margin of \$4.9 million (31.8 percent of revenue) in the prior year. International orders, primarily in the Middle East and South America accounted for the margin improvement. The Corporation's generators typically attract premium pricing in certain applications and geographic regions due to their uniqueness as a very reliable remote power source.

The gross margin in 2002 was also positively affected by the receipt of the final amount owing from GAIL, due to the fact that most of its associated costs were expensed in the prior year because of their non-refundable nature.

Investment income of \$2.9 million was generated in the current year on an average cash and short-term investment balance of \$108.2 million. Lower money market returns together with a decreasing cash and short-term investment position accounted for the reduction in investment income from \$5.9 million in the prior year.

Research, engineering and product development costs in aggregate were \$23.3 million in the current year, of which the fuel cell division and generator division accounted for \$22.2 million and \$1.1 million, respectively. In the prior year these divisions reported expenditures of \$14.0 million and \$1.1 million, respectively. Research, engineering and development costs in the fuel cell division included labor costs of \$12.1 million in 2002 as compared to \$6.7 million in 2001, accounting for a significant portion of the overall increase in research, engineering and development expenditures. In previous years and in the first nine months of 2002, the Corporation strategically increased its fuel cell related expenditures for purposes of attaining its product commercialization targets with respect to timing, product cost and reliability. To this end, the Corporation increased its engineering and technical staff during 2001 and 2002. Furthermore, in 2002 the Corporation incurred additional manufacturing and material costs of producing eight prototypes for internal and external testing in 2002 and early 2003. In late 2002, however, in recognition of difficult capital markets and the challenge they may pose to raising future equity capital, the Corporation rationalized its expenditures on non-core fuel cell development programs. After implementing this downsizing in November 2002, the Corporation ended 2002 with 148 personnel directly involved in fuel cell development, a decrease of 33 positions from our peak staffing levels in mid-2002 and a modest increase of four positions from the beginning of 2002.

General and administrative expenses increased to \$5.3 million in the current year from \$3.6 million in the prior year. Severance costs associated with the departure of former officers and other employees accounted for \$0.9 million of this increase. An increase in personnel in the Corporation's various administration departments in late 2001 and early 2002 to support the growth of our fuel cell program also contributed to an increase in the current year general and administrative expenses. In late 2002, each of these departments were significantly reduced in size which is expected to yield cost reductions in 2003.

Business development expenditures increased to \$2.7 million in the year from \$1.1 million in the prior year. The increase in expenditures related to various business development initiatives undertaken throughout the year, including the retention of Salomon Smith Barney Inc. (now Citigroup Global Markets Inc.).

Marketing expenditures, which relate solely to the Corporation's generator division, increased to \$1.9 million (8.9 percent of revenues) in 2002 from \$1.7 million (11.1 percent of sales) in 2001. The reduction of marketing expenditures as a percentage of revenue reflected the economies of scale relative to the fixed component of our marketing program. The Corporation utilizes a broad network of agents around the world in conjunction with an internal sales and contract administration group. As in prior years, agents' commissions are reported in cost of sales, while all other sales related expenses are reported in marketing expenses.

Depreciation expense increased \$1.2 million in 2002 from \$1.8 million in 2001. Capital expenditures of \$6.1 million in 2002 and \$9.0 million in 2001 accounted for this increase.

Interest on long-term debt of \$29,000 decreased in accordance with the repayment of capital lease obligations in the year. At December 31, 2002, remaining capital lease obligations totaled only \$207,000, all of which were current.

Income tax expense comprised large corporation tax of \$0.2 million and international income tax of \$0.2 million. As in the prior year, and consistent with the expensing of fuel cell development expenses to which the losses relate, no benefit of the Corporation's unused tax deductions or credits were recognized as assets on the balance sheet at year end. At December 31, 2002, the Corporation had \$57.4 million in tax deductions available in Canada and \$11.7 million of investment tax credits.

Despite significant improvement in profitability of the Corporation's generator division, the increase in fuel cell commercialization expenditures resulted in a net loss from continuing operations of \$24.5 million (\$0.89 per common share) for the year ended December 31, 2002, compared to a loss for the previous calendar year of \$13.0 million (\$0.49 per common share).

Discontinued operations, which relate to the Corporation's military heater division divested in 2001, reported earnings of \$0.1 million (\$0.01 per common share) as a result of the inclusion into income of a previous warranty provision, the liability for which has been assessed as nil.

Year ended December 31, 2001 as compared to the nine months ended December 31, 2000

The Corporation changed its fiscal year end from March 31 to December 31 effective December 31, 2000. For purpose of comparisons to the audited consolidated financial statements of the year ended December 31, 2001, the following discussion will include reference to the unaudited consolidated financial statements for the twelve-month period ended December 31, 2000, together with the previously reported audited consolidated financial statements for the nine-month period ended December 31, 2000.

On August 24, 2001, the Corporation completed the sale of its military heater business. The results of operations and financial position of this business have been reported as discontinued operations. Accordingly, prior period financial statements, including segmented information, have been reclassified to reflect this change.

Sales revenue, which comprises thermoelectric sales and service, for the twelve months ended December 31, 2001 was \$15.4 million compared to \$25.4 million for the twelve months ended December 31, 2000. The reduction in revenue in the year reflected the substantial completion of the Corporation's contract with GAIL in 2001 for the supply and installation of thermoelectric generators along a new pipeline constructed by GAIL. Revenue from this contract decreased in the current year to \$0.7 million compared to \$15.0 million for the twelve months ended December 31, 2000. The Corporation was successful in partially offsetting the impact of the completion of its India contract, with non-India sales increasing by \$4.3 million over the prior year. Revenue for the previous fiscal period, which comprised the nine months ended December 31, 2000, was \$14.6 million.

The Corporation has successfully completed its contractual commitments on the GAIL pipeline project and is negotiating the release of the final ten percent (\$2.0 million) contract holdback. The Corporation is in discussions with GAIL concerning delays in the completion of the Corporation's commitments under the contract and the impact of these delays on the release of the holdback amount. It is the Corporation's position that delays in the construction of the pipeline itself, of which the Corporation was reliant on to complete its work, accounted for any delays incurred by the Corporation. The Corporation is confident that it will be successful in recovering substantially all of the holdback amount. However, as confirmation of this recovery is dependent on certain documentation from GAIL, including a formal acceptance certificate of the equipment and services provided, the Corporation has not recognized an equivalent amount of revenue equal to the holdback amount. If and when the

holdback is recovered, an equal amount of revenue will be reported in the period of recovery. The Corporation has recognized expenses directly attributable to the holdback amount, except for expenses that are contingent on the receipt of this final amount.

A gross margin of \$4.9 million, or 31.8 percent of revenue was generated in the current year compared to \$7.0 million, or 27.6 percent of revenue in the prior calendar year. The majority of the Corporation's sales are denominated in U.S. dollars, and the strength of the U.S. dollar relative to its Canadian counterpart contributed to a stronger gross margin percentage in the current year and to the realization of foreign currency gains of \$0.4 million. Additionally, the Corporation realized premium margins on certain international orders in the current year.

Investment income increased to \$5.9 million in the year ended December 31, 2001 from \$3.9 million in the previous year. This increase reflects a full year of investment returns on \$94.6 million of net proceeds from the Corporation's equity offering in August of 2000, partially offset with lower money market returns on a year over year basis.

Research, engineering and development expenses increased nearly threefold to \$15.1 million, from \$5.9 million in the previous year. The Corporation expensed its research, engineering and development expenses as incurred. Commercialization activities in the Corporation's fuel cell division accounted for \$14.0 million compared to \$5.4 million in the previous year. A doubling of personnel directly involved in fuel cell research and development contributed to the significant, albeit anticipated, increase of expenditures in this division. In the current year, the Corporation also increased the manufacturing of fuel cell membranes, stacks and prototypes for testing purposes, the material and fabrication costs of which increased research and development expenses. Research engineering and development expenditures incurred in the generator division increased to \$1.1 million compared to \$0.4 million in the previous calendar year. These expenses comprise primarily engineering support and product development costs related to generator sales and services. The increase in expenses reflects a shift to new product development and engineering initiatives in 2001 from primarily production support and product customization which is typically expensed to cost of goods sold.

Marketing expenses increased to \$1.7 million in the current year compared to \$1.6 million in the prior calendar year, despite a decrease in total revenues. Additional marketing expenses incurred by the Corporation reflect the generator division's continued focus on expanding international markets for its products.

Business development expenditures increased significantly in the current year to \$1.1 million compared to \$0.1 million in the prior year. This increase reflects the addition of six professionals to the Corporation's business development team, whose work was evident with the signing of four memorandums of understanding with alliance partners in 2001.

General and administrative expenses increased to \$3.6 million in 2001 compared to \$2.4 million in the prior calendar year. The Corporation added additional administrative personnel and implemented enhanced systems to manage the rapid expansion of its fuel cell commercialization efforts in 2001.

Depreciation expense was \$1.8 million for the year ended December 31, 2001 compared to \$0.6 million in the previous calendar year. The increase in depreciation was reflective of the Corporation's investment in fuel cell manufacturing and testing equipment and additional facilities in the current and prior year.

Income tax expense, which is comprised of Indian income taxes related to in-country work and Canadian capital tax, was \$0.8 million in the current year compared to \$1.0 million in the prior calendar year. The Corporation does not record any future benefit of income tax losses and other deductions available for carryforward due to uncertainty in their utilization within the carryforward periods.

A significant increase in fuel cell commercialization expenditures resulted in an increased loss from continuing operations in the year ended December 31, 2001, to \$13.0 million (\$0.49 per share) compared to a loss

of \$0.4 million (\$0.03 per share) in the previous calendar year. The net loss from continuing operations for the previous fiscal year, which comprised the nine months ended December 31, 2000, was \$2.0 million (\$0.09 per share).

Consistent with its strategy of focusing on power generating technologies, including both fuel cells and thermoelectric generators, the Corporation divested of its military heater division in 2001 and accounted for the division's results as discontinued operations. The Corporation recorded a gain on sale of the heater division of \$0.7 million on sales proceeds of \$2.1 million, reflecting the sale of the division's fixed assets, goodwill and inventory. The Corporation generated earnings from discontinued operations from the accelerated completion of its contract with the U.S. military of \$0.4 million prior to the disposition. A net loss from discontinued operations of \$0.2 million was incurred in the previous calendar year. As part of the sale agreement, the Corporation may also receive additional payments from the purchaser based on heater sales over a five-year period should the purchaser be successful in obtaining a follow-on contract with the U.S. military at specified pricing levels. These additional payments could total an estimated \$2.6 million over the five-year period in the event that these conditions are met.

In selling this non-core business, the Corporation realized \$5.2 million in cash through sale proceeds and reductions of working capital balances related to the heater division. This cash will be redeployed in the Corporation's fuel cell division.

For the year ended December 31, 2001, the Corporation incurred a net loss, after discontinued operations, of \$11.8 million (\$0.45 per share) compared to a net loss of \$0.7 million (\$0.04 per share) for the year ended December 31, 2000.

Critical Accounting Policies

Warranty Provision

In establishing the appropriate provisions for warranty, the Corporation estimates the likelihood that the thermoelectric generators and related parts it sells will experience warranty claims. Management makes this assessment based on historical warranty claims experience and the terms of the related contracts. Product customization, environmental conditions relating to a product's operational location, or a change in the supplier or type of raw material used in the Corporation's products could result in actual warranty claims being lower than, or in excess of that estimated by management.

Revenue Recognition

Substantially all of the Corporation's revenues are derived from the generator segment. These revenues consist of the sale and service of generator products, and in the case of long-term contracts, may include multiple deliverable arrangements such as delivery, installation, and commissioning.

The Corporation's revenue recognition policies within the generator segment, as well as the fuel cell segment, vary depending upon the nature of the sales contract and take into account customer acceptance provisions. Therefore, prior to recognizing revenue, management must use judgment in determining when a contract deliverable has been fulfilled, and whether customer acceptance has occurred.

Research and Development Expenditures

With the exception of those that are capital in nature, research, engineering and development costs are expensed as incurred unless a development project meets the criteria for deferral. Management has concluded that the criteria for the capitalization of development costs pursuant to Canadian generally accepted accounting principles have not been met.

In addition, the Corporation derives future tax benefits in the form of deductions and tax credits available for carryforward from its research and development and other operating expenditures. Due to the uncertainty of utilization of these deductions and tax credits, the Corporation has not recognized any future tax assets relating to these benefits.

Recoverability of Long-Lived Assets

The Corporation has estimated the useful lives of capital assets based on historical experience, lives commonly used by industry participants, and management's expectations based on the assets' purpose. Management also determines whether circumstances exist that indicate a capital asset's carrying amount may not be recoverable, and if so, recognizes an impairment loss. Factors affecting the useful lives and recoverability of capital assets include economic and market conditions, environmental regulation, changes in technology, market acceptance of the Corporation's products as compared to competing and substitute products, the development of new markets or lack thereof, and their usefulness in the processes of developing a commercially viable fuel cell product.

Newly Issued Canadian Accounting Standards

Disposal of Long-Lived Assets and Discontinued Operations

A new accounting standard has been issued relating to disposal activities initiated after May 1, 2003. The standard specifies the accounting and disclosure requirements relating to assets that are or will be disposed of, including those relating to discontinued operations. The adoption of this standard does not have any impact on the Corporation's current financial position or results of operations, however its impact in future years could be material.

Asset Retirement Obligations

Effective January 1, 2004, the Corporation will adopt the new accounting standard relating to asset retirement obligations. The new standard focuses on the recognition and measurement of liabilities for obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operation of the assets. The obligations are measured initially at fair value and the resulting costs capitalized into the carrying amount of the related asset. In subsequent periods, the liability is adjusted for the accretion of discount and any changes in the amount or timing of the underlying future cash flows. In addition, the asset retirement cost is amortized to income on a systematic and rational basis. The adoption of this standard does not have any impact on the Corporation's current financial position or results of operations, however its impact in future years could be material.

Liquidity and Capital Resources

At December 31, 2002, the Corporation held cash and short-term investments of \$95.3 million compared to \$121.1 million at the end of 2001. These amounts reflect \$125.0 million of gross proceeds raised from two equity financings completed by the Corporation in 2000. The Corporation maintains a very strict and conservative investment policy governing its cash and short-term investments. Investment of the Corporation's cash reserves are limited to Canadian bank and government securities and low credit risk, money market instruments.

The Corporation had net working capital of \$96.5 million at the end of the current year, compared to \$124.3 million at December 31, 2001.

The Corporation's long-term indebtedness at December 31, 2002, consisted of a \$200,000 research and development loan from a Canadian government program which promoted energy efficiencies and renewable energy technologies. This loan is non-interest bearing and is repayable up to the principal amount based on 5 percent of revenue generated to 2015 from certain fuel cell technology developed. The Corporation has also recognized a long-term liability at December 31, 2002 of \$286,000 (in addition to a current portion of \$355,000

recorded in accrued liabilities) for costs associated with restoring soil adjacent to its Bassano manufacturing facility back to its original state. This facility has been used by the Corporation for over 20 years, and Global is committed to ensuring it meets current environmental standards.

The Corporation maintains an operating line of credit of \$20.0 million with a Canadian chartered bank and a U.S.\$4.0 million facility to support letters of guarantee and bid bonds, of which no amounts, except as noted below, were drawn at December 31, 2002 and December 31, 2001. The amount of borrowing under these facilities is limited by the amount of short-term investments held on account with the same bank and the amount of trade accounts receivable outstanding. Letters of guarantees and bid bonds issued pursuant to these facilities totaled U.S.\$3.0 million at December 31, 2002, compared to U.S.\$2.8 million at December 31, 2001. Bid bonds may only be called by the customer should the Corporation withdraw its bid or fail to have entered into the contract after it has been awarded to the Corporation. Letters of guarantee issued in relation to performance may be claimed by the customer should the Corporation fail to comply with the terms and conditions of the sales contract. Generally, on larger international orders the Corporation retains insurance for wrongful calls under these guarantees.

On July 31, 2000, in conjunction with a strategic alliance with Enbridge, the Corporation issued Series 2 Preferred Shares for gross proceeds of \$25.0 million. These Series 2 Preferred Shares have a cumulative dividend, payable in cash or the Corporation's common shares, ranging from five percent to a minimum of one percent per annum based on an inverse relationship to the volume weighted average share price of the Corporation's common shares, determined quarterly. For 2002, the cumulative dividend rate was five percent. The Corporation must pay a minimum of \$500,000 in preferred share dividends annually, and unpaid cumulative dividends are increased by a 2.45% quarterly rate, compounded quarterly, until payment thereof. The Series 2 Preferred Shares are redeemable at the option of the Corporation at their face value after July 31, 2004, subject to certain conditions. For the year ended December 31, 2002, the Corporation declared and paid dividends of \$500,000 on these Series 2 Preferred Shares. At December 31, 2002, Series 2 Preferred Share dividends in arrears totaled \$1,601,600.

The Corporation maintains conservative financial policies with respect to its ongoing investment in fuel cell development and commercialization relative to its cash resources. In light of unpredictability of external sources of capital, the Corporation strives to maintain a significant cash reserve base to continue its fuel cell initiatives, in spite of fluctuations in its access to external capital. However, in light of the downturn in capital markets, especially within the alternative energy sector, and the challenges these markets pose to raising additional capital, the Corporation initiated a cost reduction program in its non-core fuel cell activities and general and administrative departments. In late 2002, the Corporation reduced its personnel count in these areas by 22 people, and implemented aggressive cost containment measures.

Investing Activities

Capital expenditures were \$6.1 million for the year ended December 31, 2002 compared to \$9.0 million in 2001. Expenditures of \$5.6 million in the fuel cell division in the current year related primarily to fuel cell test stand equipment and other equipment used in the Corporation's pilot manufacturing facilities. Fuel cell capital expenditures in the prior year were \$7.9 million. The Corporation has now incurred substantially all the capital cost to equip its approximately 100,000 square feet of fuel cell facilities located in Calgary, Alberta. Additional fuel cell capital expenditures will generally be limited to project specific equipment. Accordingly, capital expenditures for 2003 are expected to decrease substantially from 2002 and 2001 levels.

As in prior years, capital expenditures in the Corporation's thermoelectric generator division were nominal, totaling \$0.2 million related to plant equipment and support. Similarly, \$0.2 million of capital expenditures were incurred in the prior calendar year.

As at December 31, 2002, the Corporation had no commitments outstanding related to the purchase of capital assets.

Financing Activities

On December 3, 2002, the Corporation received approval from the Toronto Stock Exchange ("TSX") to proceed with normal course purchases of its common shares. During the period commencing December 5, 2002 and ending December 1, 2003, the Corporation may acquire up to 1,458,584 common shares, being five percent of its issued and outstanding common shares. At the time of approval, the board of directors of the Corporation believed that the market price of the common shares was less than the fair market value of those shares. Purchases of common shares pursuant to the normal course issuer bid will be effected, on behalf of the Corporation, by a registered investment dealer through the facilities of the TSX. The price paid by the Corporation for any common shares purchased by it will be the market price of the shares at the time of the purchase. The Corporation intends to fund the purchase of common shares pursuant to the normal course issuer bid from its cash reserves. During the period ended December 31, 2002, no common shares were repurchased.

A shareholder may obtain a copy of the Notice of Intention to Make a Normal Course Issuer Bid filed with the TSX without charge, by contacting the Corporation's head office at the address at the end of this Annual Information Form.

Quantitative and Qualitative Disclosures About Market Risk

The Corporation has not used derivative instruments or engaged in hedging activities. The Corporation does, however, experience market risk from interest rate and foreign currency exchange exposure.

Interest Rate Risk

The Corporation is exposed to interest rate risk in relation to interest income earned on short-term interest bearing securities and short-term investments. Based on balances as of December 31, 2002, an increase or decrease of 1% in interest rates earned on short-term investments would affect net earnings by approximately \$953,000 annually. There is no assurance that interest rates will increase or decrease in the future.

Foreign Currency Risk

For the year ended December 31, 2002, 72% of the Corporation's revenue was denominated in U.S. dollars. Should the Corporation continue to earn such a significant portion of its revenue in U.S. dollars, future income denominated in U.S. dollars will expose the Corporation to market risk with respect to fluctuations in the Canadian dollar value of future U.S. earnings. A 10% decline in the value of the U.S. dollar relative to the Canadian dollar in fiscal year 2002, for example, would have reduced revenues by approximately \$1.6 million.

Business Risks and Outlook

Fuel Cells

The Corporation's primary focus is the development and commercialization of fuel cell technologies, particularly stationary and remote power applications.

The viability of the fuel cell industry is contingent on the ability to produce fuel cells that operate reliably on a cost competitive basis with conventional power sources, including the existing electrical grid. The Corporation has set cost and reliability objectives, which it believes are necessary for the wide spread adoption of its future products in certain targeted markets. To achieve these objectives, further advances in its SOFC technology are required. Furthermore, economies of scale derived from large volume production are necessary if cost targets are to be achieved. The ability of the Corporation to successfully achieve the commercialization of its technology is largely dependent on it successfully meeting its technology and cost objectives. To the extent that these objectives are not met, or not anticipated to be met, on the timelines originally projected by the Corporation, additional cash resources will be required to fund commercialization programs over extended

periods of time. The availability of additional capital will largely be dependent on the state of the capital markets and the Corporation's success in demonstrating its commercialization progress. The Corporation may revisit the prudence of continuing to invest in fuel cells if the investment does not provide adequate return to the Corporation's shareholders based on the technology, commercialization and financing risk inherent in fuel cell development.

The fuel cell industry has attracted an increasing number of companies, and the Corporation's future profitability will depend, in part, on its ability to maintain technology leadership in SOFC technology. A number of the Corporation's existing competitors utilize proton exchange membrane ("PEM") technology in their respective fuel cell development programs, which generally are farther advanced in the commercialization process. The Corporation believes that each of these technologies has advantages in different applications, and consequently has chosen to focus on applications where it has judged SOFC technology, in terms of cost and fuel flexibility, to be superior. The fuel cell industry also faces competition in certain applications from other emerging power technologies such as micro-turbines. The Corporation's success will depend on its ability to compete on a performance and cost effective basis with these technologies.

Environmental regulations that govern emissions and air quality standards have also accelerated the development of fuel cells and alternative energy sources. In addition, fuel cells and other alternative energy technologies may be relied upon to reduce the United States' and other countries' dependency on foreign sources of energy. Availability of capital and the market for the Corporation's fuel cell products in the future will continue to be influenced by these factors.

Thermoelectric Generators

Customer demand for thermoelectric generators has historically been contingent on regional natural gas development drilling and pipeline activity, which in turn has been affected by the relative strength in natural gas prices. It is expected that recent increases in natural gas prices in North America will result in an increase in natural gas drilling and well completions. The prospect of continued gas exploration and development in such areas as the Mackenzie Delta in northern Canada also provides additional opportunities for the Corporation's products. The market for the Corporation's thermoelectric generators is expected to expand as other countries around the world develop their natural gas infrastructure. The construction of natural gas and liquids pipelines in developing countries has typically provided sales opportunities for the Corporation's generators. As with all commodity prices, however, pricing volatility and cyclicity exists, and the market for the Corporation's generators is affected by this volatility. The unpredictability of additional pipeline projects in international markets contributes to significant variability in the Corporation's revenue. The Corporation also competes with alternative electrical generating technologies for remote power applications. Although the Corporation believes its thermoelectric generators have significant reliability advantages over other competing products, the emergence of new technologies, including fuel cells, will influence the Corporation's ability to compete in remote power applications.

MARKET FOR SECURITIES

The common shares of the Corporation are listed for trading on the Toronto Stock Exchange under the symbol "GLE".

DIRECTORS AND OFFICERS

The following table sets forth the name, municipality of residence and principal occupation for the past five years of the directors and officers of the Corporation. The term of office of each director will expire at the end of the next annual meeting of shareholders of the Corporation.

Directors

<u>Name and Municipality of Residence</u>	<u>Director Since</u>	<u>Principal Occupation or Employment for Past Five Years</u>
Robert B. Snyder(2)(3) Edmonton, Alberta	January 13, 1994	Chairman of the Board of Directors of the Corporation since June 2, 1997; prior thereto, President and Chief Executive Officer of the Corporation from August 1996.
Peter C. Garrett(3) Calgary, Alberta	August 13, 2002	President and Chief Executive Officer of the Corporation since July 16, 2002; prior thereto Chief Operating Officer of the Corporation from November 13, 2001; prior thereto President of Garrett & Associates (a private consulting company) from February 2001; prior thereto Vice President, Wireless Product Development, Nortel Networks from January 1997.
Kerry W. Brown(1)(3) St. Albert, Alberta	February 14, 1992	President and CEO of Foundation Equity Corporation since 1992; Chairman of McCoy Bros. Inc. (a TSX listed truck parts and service company) since July 1995.
John W. Chomiak(2) Edmonton, Alberta	May 11, 1994	President and Chief Executive Officer, Hemisphere Engineering Inc. (a domestic and international engineering services company).
John C. Howard(1) Edmonton, Alberta	August 14, 1996	Managing Partner, Howard Kirkpatrick Associates, Chartered Accountants; Director of Foundation Equity Corporation; Director of McCoy Bros. Inc. (a TSX listed truck parts and service company).
Stephen J.J. Letwin Toronto, Ontario	January 24, 2003	Group Vice President, Gas Strategy & Corporate Development, Enbridge Inc. since April 1, 2003; prior thereto Group Vice President, Distribution & Services, Enbridge Inc. since September 1, 2000; prior thereto President & Chief Operating Officer, Energy Services, Enbridge Inc. since March, 1999; prior thereto Senior Vice President, Corporate Services & Chief Financial Officer, TransCanada PipeLines Limited since March 1998; prior thereto President, Marketing TCE USA since October 1995.
Henry Yip(2) Edmonton, Alberta	September 10, 1998	Executive Vice President of Network Services, AT&T Canada since March 2001, prior thereto, Vice President, Network Operations, TELUS Communications Inc. from March 1999; prior thereto, Vice President—Network Services and Technology Planning, TELUS from September, 1995.

<u>Name and Municipality of Residence</u>	<u>Director Since</u>	<u>Principal Occupation or Employment for Past Five Years</u>
Norman Fraser(2) Toronto, Ontario	September 27, 2000	Independent financial consultant since 1995; prior thereto, Vice President and Director of RBC Dominion Securities Inc.

Notes:

- (1) Member of the Audit Committee.
- (2) Member of the Corporate Governance and Compensation Committee.
- (3) Member of the Executive Committee.

Officers

<u>Name and Municipality of Residence</u>	<u>Title</u>	<u>Principal Occupation or Employment for Past Five Years</u>
Jim Barker Calgary, Alberta	Vice President, Business Development & Marketing	Vice President, Business Development & Marketing since March 5, 2002; prior thereto, Vice President, Business Development since January 2, 2001; prior thereto, Chief Executive Officer of RMS Research Management Systems since January 1, 1999; prior thereto, President and Chief Executive Officer of AgriVest Capital Corporation since October 1, 1997.
Donelda P. Bester Calgary, Alberta	Assistant Corporate Secretary	Assistant Corporate Secretary of the Corporation from August, 1997; prior thereto, various positions from 1990.
Brian Borglum Calgary, Alberta	Vice President and Chief Technology Officer	Vice President and Chief Technology Officer since August 13, 2002; prior thereto Director of Advanced Materials since July 3, 2001; prior thereto Manager of Advanced Technology of Siemens Westinghouse Power Corporation since January 2001; prior thereto Team Leader of Cell Process Development of Siemens Westinghouse Power Corporation since October 1998; prior thereto Senior Scientist of Siemens Westinghouse Power Corporation since May 1993.
Paul A. Crilly Calgary, Alberta	Vice President, Finance & Chief Financial Officer, Corporate Secretary	Vice President, Finance & Chief Financial Officer since June 2000; prior thereto, Senior Vice President, Finance and Chief Financial Officer of Ryan Energy Technologies Inc. since July 1996.
Bernie LeSage Calgary, Alberta	Vice President, Generator Division	Vice President of the Corporation from 1997; prior thereto, Manager of Manufacturing Systems from November, 1992.
Brian McGurk Calgary, Alberta	Vice President, Human Resources	Vice President, Human Resources since October 2, 2001; prior thereto, Manager, Human Resources since October 2, 2000; prior thereto, Manager of Employee Effectiveness at Telus Mobility Inc. since February 2000; prior thereto, Senior HR Advisor at Telus Management Services Inc. since February 1998.

<u>Name and Municipality of Residence</u>	<u>Title</u>	<u>Principal Occupation or Employment for Past Five Years</u>
Eric Neary Calgary, Alberta	Vice President, Engineering	Vice President, Engineering since August 13, 2002; prior thereto Director of Engineering since June 1, 2002; prior thereto Manager Systems Test since March 11, 2002; prior thereto President and CEO of OR-CAL Power since March 2001; prior thereto Manager, Field Service of Ballard Power Systems since April 1998 and Manager, Systems Test since March 1997.

As at the date hereof, the directors and officers of the Corporation, as a group, beneficially owned directly or indirectly, or exercised control or direction over, 1,266,935 common shares or approximately 4.3% of the issued and outstanding common shares of the Corporation. The information as to the shares beneficially owned, not being within the knowledge of the Corporation, has been furnished by the respective directors and officers of the Corporation.

Mr. Henry Yip is a senior officer of AT&T Canada Inc. ("AT&T Canada"). On October 15, 2002, AT&T Canada announced a consensual restructuring plan relating to AT&T Canada's \$4.5 billion of outstanding public debt. The restructuring was carried out under the *Companies' Creditors Arrangement Act* (Canada). The restructuring was approved by AT&T Canada's securityholders and the Ontario Superior Court of Justice in February of 2003 and became effective on April 1, 2003.

Foundation Equity Corporation ("Foundation") and Mr. Kerry Brown entered into a settlement agreement with the Alberta Securities Commission (the "ASC") dated December 13, 1999 and Foundation entered into a settlement agreement with the Ontario Securities Commission (the "OSC") dated September 30, 2002, both of which relate to a sale by Foundation of common shares of the Corporation carried out in April of 1999. On April 16 and 19, 1999 Foundation sold approximately 1.2 million common shares that it owned in the Corporation through the Toronto Stock Exchange from its control block without satisfying the applicable prior notice periods under the *Securities Act* (Alberta) and the *Securities Act* (Ontario) and did not comply with the hold period requirements under the *Securities Act* (Ontario). At the time of the sale, Foundation owned more than 20% of the issued and outstanding shares of the Corporation and therefore was deemed under such legislation to be a party in a position to materially affect the control of the Corporation. Upon Foundation becoming aware of the filing requirements on April 19, 1999, it contacted the ASC, made a late filing of the required notices and disclosed that prior sales had occurred.

Under the terms of the settlement agreement with the ASC, Foundation and Mr. Brown agreed to undertake to comply diligently with the *Securities Act* (Alberta) and to pay an administrative penalty in the amount of \$28,000 and costs of \$2,000. Pursuant to the settlement agreement with the OSC, Foundation agreed to take additional measures to comply with Ontario securities law, was reprimanded by the OSC and paid costs in the amount of \$2,000. The full cooperation of the respondents and the absence of any prior sanctions were specifically noted in the settlement agreement with the ASC.

DIVIDEND RECORD AND POLICY

The Corporation has not paid any dividends on any of its outstanding common shares and does not intend to pay such dividends in the foreseeable future. Any future determination to pay dividends on the common shares will be at the discretion of the board of directors of the Corporation and will be dependent upon the Corporation's earnings, capital requirements and financial position, as well as general economic conditions, bank lending requirements and other factors deemed relevant by the board of directors of the Corporation. In addition, there may be restrictions placed on the Corporation's ability to declare dividends on one class or series of shares in preference to other classes or series.

The Corporation has issued Cumulative Redeemable Convertible Preferred Shares, Series 2, for which dividends are payable in accordance with the terms thereof.

RISK FACTORS

The risks and uncertainties described below are not the only ones the Corporation faces. Additional risks and uncertainties, including those that the Corporation does not know about now or that it currently deems immaterial, also may adversely affect the Corporation's business.

The Combination of the Corporation and Quantum May Not Occur

The combination of the Corporation and Quantum is subject to various conditions including shareholder and regulatory approvals. There can be no assurance that these and other conditions will be satisfied.

The Corporation Cannot Give Any Assurance of a Successful Combination with Quantum

In evaluating the terms of the transaction, the Corporation and Quantum each analyzed their respective businesses and made certain assumptions concerning their respective future operations. A key assumption was that the transaction would result in a combined entity with operating results in 2003 and beyond that were substantially better than those recently experienced by either of the companies. The Corporation cannot give any assurance, however, that on a combined basis, the companies will achieve better operating results or be able to successfully integrate each company's operations, cultures, technologies, products and personnel.

The Corporation Expects to Incur Substantial Losses

The Corporation has a history of operating losses and has incurred substantial expenditures over the last four years on fuel cell development and commercialization. The Corporation expects to make significant expenditures on fuel cell technology going forward, which may result in substantial losses in the future. The Corporation cannot predict whether it will operate profitably. The Corporation expects to continue to make significant investments in product development to achieve commercialization of its products. If the Corporation is unable to achieve profitability, Global's share price could decline.

The Corporation May Never Complete the Development of Commercially Viable Fuel Cells and Fuel Cell Systems

The Corporation does not know when or whether it will successfully complete development of commercially viable SOFC systems for any of its target and prospective markets. Despite the Corporation's accomplishments, it must develop or otherwise acquire access to substantial technological advances in relation to its systems, particularly in the areas of fuel cell stacks and systems integration, before it is able to produce a commercially viable product. Even if the Corporation is able to do so, these efforts will still depend on the success of other companies in producing related and necessary products for use in conjunction with the Corporation's products.

The Corporation Must Lower the Cost of its Fuel Cell Systems and Demonstrate their Reliability

The Corporation's solid oxide fuel cell systems are currently in the development stage. While proof of concept prototypes have been developed and tested in controlled conditions, these systems have not yet undergone extensive testing, nor have the designs been refined to the level of a commercial product. The prototypes incorporate specialty components that are produced in one-off or small batch quantities. The current prototypes cost significantly more, and perform at a lower level than established competing technologies. If we are unable to develop and manufacture fuel cell systems that are competitive with competing technologies in terms of price, reliability and longevity, consumers will be unlikely to buy products containing our fuel cells and fuel cell systems. The price of fuel cell systems is dependent largely on material and manufacturing costs. There can be no assurance that the Corporation will be able to lower these costs to the level where the Corporation will be able to produce a competitive product or that any product produced using lower cost materials and manufacturing processes will not suffer from a reduction in performance, reliability and longevity.

A Mass Market for Fuel Cells and Fuel Cell Systems May Never Develop or May Take Longer to Develop than Anticipated

Fuel cell systems represent emerging technologies, and the Corporation does not know whether consumers will adopt these technologies on a large scale or whether original equipment manufacturers (“OEMs”) will incorporate these technologies into their products. In particular, if a mass market fails to develop or develops more slowly than anticipated for fuel cell powered transportation and power generation applications, the Corporation may be unable to recover the expenditures incurred to develop the Corporation’s fuel cells and fuel cell systems and may be unable to achieve or maintain profitability, any of which could negatively impact the Corporation’s business. Many factors that are beyond the Corporation’s control may have a negative effect on the development of a mass market for fuel cells and our fuel cell products and systems. These factors include the following:

- the cost competitiveness and physical size of fuel cell systems and “balance of plant” components;
- the availability, future costs and safety of hydrogen, natural gas or other potential fuel cell fuels;
- consumer reluctance to adopt fuel cell or alternative fuel products;
- OEM reluctance to replace current technology;
- consumer perceptions of fuel cell systems;
- regulatory requirements; and
- the emergence of newer, breakthrough technologies and products within the fuel cell industry.

Deregulation of Utility Industry

One of the Corporation’s markets is for stationary power generators, a market that is driven by deregulation and restructuring of the electric utility industry in Canada, the U.S. and elsewhere and by the requirements of utilities, independent power producers and end users. Deregulation of the electric utility industry varies by jurisdiction and is subject to government policies that will determine the pace and extent of deregulation. Changes in government and public policy over time could impact deregulation and adversely affect the Corporation’s prospects for commercializing stationary power generators and the Corporation’s financial results.

The Corporation has entered into Memorandums of Understanding (MOUs) with Potential Strategic Partners

The Corporation is negotiating definitive agreements with strategic partners with whom MOUs have been signed. There can be no assurance that the Corporation will be able to successfully negotiate and execute these definitive agreements with any of these partners. The failure to do so may effectively terminate its working relationship with these partners.

The Corporation is Dependent on its Relationships with its Strategic Partners

The Corporation has entered into relationships with strategic partners for design, product development and distribution of natural gas-fueled and propane fueled SOFC systems. These agreements, terms and conditions governing these relationships allow for termination by the Corporation’s partners. Termination of any of these agreements could adversely affect our ability to design, develop and distribute these products to the marketplace.

Certain of the Corporation’s Fuel Cells and Fuel Cell Systems will be Components of Other Companies’ Products

To be commercially useful, certain of the Corporation’s fuel cells and fuel cell systems may be integrated into products manufactured by OEMs. The Corporation can offer no guarantee that OEMs will manufacture appropriate products or, if they do manufacture such products, that they will choose to use the Corporation’s fuel

cells and fuel cell systems. Any integration, design, manufacturing or marketing problems encountered by OEMs could adversely affect the market for the Corporation's fuel cells and fuel cell systems and its financial results.

Changes in Environmental Policies Could Hurt the Market for the Corporation's Products

Stricter environmental laws and regulations governing emissions of green house gases and pollutants have given impetus to the development of fuel cells generally. Although the development of alternative energy sources, and in particular fuel cells, have been identified as a significant priority by many governments, there is no certainty that governments will not change their priorities or that any such change would not materially affect the Corporation's development of its products.

The Corporation Currently Faces and Will Continue to Face Significant Competition

The Corporation's products face and will continue to face significant competition. New developments in technology may negatively affect the development or sale of some or all of its products or make its products uncompetitive or obsolete. Other companies, many of which have substantially greater resources, are currently engaged in the development of products and technologies that are similar to, or may be competitive with, certain of the Corporation's products and technologies. As the fuel cell has the potential to replace existing power sources, competition for fuel cell products will come from current power technologies, from improvements to current power technologies and from new alternative power technologies, including other types of fuel cells. Each of the Corporation's target markets is currently serviced by existing manufacturers with existing customers and suppliers. These manufacturers use proven and widely accepted technologies such as internal combustion engines and turbines as well as coal, oil and nuclear powered generators. Additionally, there are competitors working on developing other fuel cell technologies in the Corporation's targeted markets. A large number of corporations, national laboratories and universities in the United States, Canada, Europe and Japan possess fuel cell technology and/or are actively engaged in the development and manufacture of fuel cells. Each of these competitors has the potential to capture market share in various markets, which would have a material adverse effect on the Corporation's position in the industry and its financial results. Many of the Corporation's competitors have financial resources, customer bases, businesses or other resources, which give them significant competitive advantages.

The Corporation Depends on its Intellectual Property and Failure to Protect that Intellectual Property Could Adversely Affect the Corporation's Future Growth and Success

Failure to protect the Corporation's existing intellectual property rights may result in the loss of its exclusivity or the right to use its technologies. If the Corporation does not adequately ensure its freedom to use certain technology, it may have to pay others for rights to use their intellectual property, pay damages for infringement or misappropriation and/or be enjoined from using such intellectual property. The Corporation relies on patent, trade secret, trademark and copyright law to protect its intellectual property. Some of its intellectual property is not covered by any patent or patent application. The Corporation's patent position is subject to complex factual and legal issues that may give rise to uncertainty as to the validity, scope and enforceability of a particular patent. Accordingly, the Corporation cannot assure that any of the patents filed by it or other patents that third parties license to it will not be invalidated, circumvented, challenged, rendered unenforceable, or licensed to others or that any of the Corporation's pending or future patent applications will be issued with the breadth of claim coverage sought by it, if issued at all. In addition, effective patent, trademark, copyright and trade secret protection may be unavailable, limited or not applied for in certain foreign countries. The Corporation also seeks to protect its proprietary intellectual property, including intellectual property that may not be patented or patentable, in part by confidentiality agreements and, if applicable, inventors' rights agreements with strategic partners and employees. The Corporation cannot assure that these agreements will not be breached, that it will have adequate remedies for any breach or that such persons or institutions will not assert rights to intellectual property arising out of these relationships. Additionally, the steps the Corporation has taken and may take in the future may not prevent the misappropriation of our solutions or technologies, particularly in

foreign countries where laws or enforcement practices may not protect the Corporation's proprietary rights as fully as in Canada and the United States.

The Corporation's Failure to Obtain or Maintain the Right to Use Certain Intellectual Property May Negatively Affect its Business

The Corporation's future success and competitive position depends in part upon its ability to obtain or maintain certain proprietary intellectual property used in its principal products. This may be achieved, in part, by prosecuting claims against others who it believes are infringing its rights and by defending claims of intellectual property infringement by its competitors. While the Corporation is not currently engaged in any material intellectual property litigation, it could become subject to lawsuits in which it is alleged that the Corporation has infringed the intellectual property rights of others or commence lawsuits against others who it believes are infringing upon the Corporation's rights. The Corporation's involvement in intellectual property litigation could result in significant expense to it, adversely affecting the development of sales of the challenged product or intellectual property and diverting the efforts of the Corporation's technical and management personnel, whether or not such litigation is resolved in its favour. In the event of an adverse outcome as a defendant in any such litigation, the Corporation may, among other things, be required to:

- pay substantial damages;
- cease the development, manufacture, use, sale or importation of products that infringe upon other patented intellectual property;
- expend significant resources to develop, redesign, re-engineer or acquire non-infringing intellectual property;
- discontinue processes incorporating infringing technology; or
- obtain licences to the infringing intellectual property.

The Corporation cannot assure that it would be successful in such development or acquisition or that such licences would be available upon reasonable terms, if at all. Any such development, acquisition or licence could require the expenditure of substantial time and other resources and could have a material adverse effect on the Corporation's business and financial results.

The Corporation Has No Experience Manufacturing Fuel Cells and Fuel Cell Systems on a Commercial Basis

To date, the Corporation has focused primarily on research and development and has no experience manufacturing fuel cells and fuel cell systems on a commercial basis. In order to produce fuel cells and fuel cell systems at affordable prices, the Corporation will have to make its fuel cells and fuel cell systems through high volume automated processes. The Corporation does not know whether it will be able to develop efficient, automated, low-cost manufacturing capability and processes that will enable it to meet the quality, price, engineering, design and production standards or production volumes required to successfully mass market its fuel cells and fuel cell systems. Even if the Corporation is successful in developing its manufacturing capability and processes, it does not know whether it will do so in time to meet its product commercialization schedule or to satisfy the requirements of its customers. The Corporation's failure to develop such manufacturing processes and capabilities could have a material adverse effect on its business and financial results.

The Corporation is Dependent on Third Party Suppliers for the Supply of Key Materials and Components for its Products

A supplier's failure to supply materials or components in a timely manner, or to supply materials and components that meet the Corporation's quality, quantity or cost requirements, or the Corporation's inability to

obtain substitute sources for these materials and components in a timely manner or on terms acceptable to it, could harm its ability to manufacture fuel cells and fuel cell systems. In addition, certain components of the Corporation's fuel cells utilize scarce natural resources, and the Corporation is dependent upon a sufficient supply of this commodity. While the Corporation does not anticipate significant near or long-term shortages in the supply of these resources, such shortages could adversely affect its ability to produce commercially viable fuel cells or significantly raise its cost of producing fuel cells.

The Corporation May Not Meet its Product Development and Commercialization Milestones

To gauge the Corporation's progress, it intends to operate, test and evaluate fuel cells and fuel cell systems under actual conditions. If its systems exhibit technical defects or are unable to meet cost or performance goals, including power output, useful life and reliability, its commercialization schedule could be delayed and potential purchasers of its initial commercial systems may decline to purchase further systems or may choose to purchase alternative technologies. Delayed commercialization schedules may also impact our cash flow projections, which could require increased funding in excess of the Corporation's forecasts.

Dependence on Key Personnel

The success of the Corporation is dependent upon, among other things, the services of the President and Chief Executive Officer, the Vice Presidents, and other key management and technical personnel. The loss of the services of these personnel for any reason could have a material adverse effect on the prospects of the Corporation. The Corporation currently has key man insurance for some of its critical personnel. There is no guarantee that the funds received from such policies in case of mishap would fully compensate the Corporation for the loss of such personnel. In addition, the future success of the Corporation will depend in large part on its ability to attract and retain qualified personnel, particularly highly skilled engineers, and there can be no assurances such personnel can be attracted and retained. The loss of services of one or more of the Corporation's senior executive officers or key personnel or the inability to continue to attract qualified personnel could delay product development cycles or otherwise materially harm the Corporation's business, financial condition and results of operations.

Skilled Labour Shortages

The Corporation requires experienced engineers, technicians and journeyman welders and machinists to conduct its business. No assurance can be given that the supply of these skilled persons will always be adequate to meet the Corporation's requirements or that the Corporation will be able to attract an adequate number of skilled persons.

Market Conditions Related to the Corporation's Thermoelectric Generators

Demand for the Corporation's thermoelectric generators depends primarily on the level of spending by oil and natural gas companies for gas exploration and development activities, and on the level of gas pipeline construction activity. These activity levels are directly affected by fluctuations in world energy prices, world supply and demand for oil and natural gas and government regulations, both domestic and international, all of which are beyond the control of the Corporation and its customers. Reduced levels of activity in the oil and natural gas industry can intensify competition and result in lower revenue and operating profit margin.

Warranty Costs

The Corporation has made a provision for thermoelectric generator warranty expenses in its financial accounts. The Corporation believes that this provision is adequate and reasonable given the past reliability and experience with its products. There is no certainty that this provision will be sufficient, and material adverse financial effects could be encountered should future reliability not be as anticipated.

International Activities

The Corporation's international activities can be subject to inherent risks, including: (i) exposure to currency fluctuations; (ii) managing potential difficulties in enforcing contractual obligations and intellectual property rights; (iii) the burden of complying with a wide variety of laws and regulations, including product certification, environmental and import and export laws; (iv) political instability; and (v) difficulties collecting international accounts receivable. To mitigate certain of these risks, the Corporation may obtain insurance when such insurance is available on acceptable terms. Such coverage is not always available and, when available, may be subject to unilateral cancellation by the insuring companies on short notice. The Corporation's operating results may be subject to changes in the Canadian dollar/United States dollar exchange rate since most international sales are transacted in U.S. dollars. Any significant fluctuations in the value of the dollar against currencies in foreign markets in which the Corporation transacts business may negatively impact the Corporation's competitiveness in foreign markets. The Corporation has seldom hedged its exposure to such currency fluctuations to date.

Insurance

The Corporation carries insurance that it considers adequate having regard to the nature of the risks and the costs of coverage. The Corporation may not, however, be able to obtain insurance against certain risks or for certain equipment located from time to time in certain areas of the world. The Corporation is not fully insured against all possible risks, nor are all such risks insurable.

The Corporation May be Required to Conduct Environmental Remediation Activities, Which Could be Expensive

The Corporation is subject to a number of environmental laws and regulations, including those concerning the handling, treatment, storage and disposal of hazardous materials. These environmental laws generally impose liability on present and former owners and operations, transporters and generators for remediation of contaminated properties. Although the Corporation believes that its businesses are operating in compliance in all material respects with applicable environmental laws, many of which provide for substantial penalties for violations, there can be no assurance that future changes in such laws, interpretations of existing regulations or the discovery of currently unknown problems or conditions will not require substantial additional expenditures. Any noncompliance with these laws and regulations could subject the Corporation to material administrative, civil or criminal penalties or other liabilities. Additionally, the Corporation may be required to incur substantial costs to comply with current or future environmental and safety laws and regulations.

In late 2002, a site inspection at the Corporation's manufacturing facility in Bassano, Alberta, Canada detected certain on-site soil and groundwater contamination, as well as contamination of off-site groundwater. The Corporation has engaged a third party international environmental consulting firm to further evaluate the extent of the contamination and assist the Corporation in developing a remediation strategy.

Based on the data available as of February 2003, the Corporation's environmental consultant proposed a remediation strategy to prevent further offsite contaminant migration and to capture and remediate existing offsite contamination. The Corporation's consultant has proposed two alternatives for groundwater remediation. The Corporation's consultant currently estimates total costs for operation of the groundwater remediation system preferred by the Corporation for a period of ten years to be \$755,000. The Corporation has made a present value provision of \$640,877 in its December 31, 2002 financial statements for site remediation expenses, though the actual remediation costs associated with this remediation could vary significantly.

ADDITIONAL INFORMATION

The Corporation will provide the following documents to any person upon request to the Assistant Corporate Secretary of the Corporation at 4908—52nd Street S.E. Calgary, Alberta T2B 3R2:

1. when any securities of the Corporation are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of any such securities:
 - a) one copy of this Annual Information Form, together with one copy of any document, or the pertinent pages of any document, incorporated by reference herein;
 - b) one copy of the comparative financial statements of the Corporation for the year ended December 31, 2002, together with the report of the auditors (the “Financial Statements”), and one copy of any interim financial statements issued subsequent thereto;
 - c) one copy of the Management Information Circular of the Corporation in respect of the annual meeting of shareholders of the Corporation held on June 5, 2002 (the “Information Circular”); and
 - d) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and not required to be provided under paragraphs (a) through (c) above; or
2. at any other time, one copy of any of the documents referred to in paragraph 1(a) through (c) above.

Additional information, including information concerning directors’ and officers’ remuneration and indebtedness, principal holders of the Corporation’s securities, options to purchase common shares and the interests of insiders in material transactions is contained in the Information Circular. Additional financial information is provided in the Financial Statements.