

Interim Financial Statements of



Three and Six months ended March 31, 2003
(unaudited)

RAILPOWER TECHNOLOGIES CORP.

Balance Sheets

	March 31, 2003 (2 nd qtr. end, unaudited)	September 30, 2002 (fiscal yr. end)
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Assets

Current assets:

Cash (note 2(a))	\$ 2,587,246	\$ 3,809,030
Accounts receivable	68,290	27,397
Prepaid expenses	27,000	19,207
Inventory	51,816	-
	<u>2,734,352</u>	<u>3,855,634</u>

Property, plant and equipment (note 3) 95,075 76,358

Leasehold improvements (note 4) 49,286 33,210

Patents (note 5) 90,090 70,642

\$ 2,968,803 \$ 4,035,844

Liabilities and Shareholders' Equity

Current liabilities:

Accounts payable and accrued liabilities \$ 177,456 \$ 67,781

Shareholders' equity:

Share capital (note 6) 6,151,959 5,895,459

Deficit (3,360,612) (1,927,396)

2,791,347 3,968,063

\$ 2,968,803 \$ 4,035,844

See accompanying notes to financial statements.

Approved on behalf of the Board:

"James E. Maier" Director

"Frank W. Donnelly" Director

RAILPOWER TECHNOLOGIES CORP.

Statements of Operations and Deficit
Unaudited

	<u>3 Months Ended March 31</u>		<u>6 Months Ended March 31</u>	
	2003	2002	2003	2002
Revenues:				
Lease	\$ 17,914	\$ 4,800	\$ 17,914	\$ 4,800
Interest	19,275	6,952	42,224	11,036
	<u>37,189</u>	<u>11,752</u>	<u>60,138</u>	<u>15,836</u>
Expenses (schedule):				
General and administrative	197,013	103,329	368,152	167,207
Research and development	550,539	100,680	1,125,202	238,556
	<u>747,552</u>	<u>204,009</u>	<u>1,493,354</u>	<u>405,763</u>
Net loss for the period	(710,363)	(192,257)	(1,433,216)	(389,927)
Deficit, beginning of period	(2,650,249)	(1,619,659)	(1,927,396)	(1,421,989)
Deficit, end of period	<u>\$ (3,360,612)</u>	<u>\$ (1,811,916)</u>	<u>\$ (3,360,612)</u>	<u>\$ (1,811,916)</u>
Net loss per weighted average share (note 2(b)) Basic				
	\$ (0.0484)	\$ (0.015)	\$ (0.0989)	\$ (0.033)
Weighted average number of common shares outstanding (note 2(b)) Basic				
	14,672,000	12,636,333	14,477,011	11,767,945

See accompanying notes to financial statements.

RAILPOWER TECHNOLOGIES CORP.

Statements of Cash Flows
Unaudited

	<u>3 Months Ended March 31</u>		<u>6 Months Ended March 31</u>	
	2003	2002	2003	2002
Cash flows from operating activities:				
Loss for the period	\$ (710,363)	\$ (192,257)	\$ (1,433,216)	\$ (389,927)
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization	13,375	4,375	25,754	8,750
Accounts receivable	(22,271)	(19,448)	(40,893)	30,309
Interest receivable	-	2,597	-	4,324
Prepaid expenses	(14,413)	(465)	(7,793)	2,526
Accounts payable and accrued liabilities	57,004	30,146	109,675	23,062
Inventory	-	-	(51,816)	-
Net cash used in operating activities:	(676,668)	(175,052)	(1,398,289)	(320,956)
Cash flows from investing activities:				
Investment in patents	(15,923)	(33,596)	(21,448)	(37,312)
Purchase of equipment	(378)	(991)	(34,261)	(3,504)
Leasehold improvements	(21,110)	-	(24,286)	-
	(37,411)	(34,587)	(79,995)	(40,816)
Cash flows from financing activities:				
Issuance of common stock for cash, net of share issue costs	244,000	2,966,980	256,500	3,803,204
Term deposit	-	200,000	-	(400,000)
	244,000	3,166,980	256,500	3,403,204
Net increase (decrease) in cash	(470,079)	2,957,341	(1,221,784)	3,041,432
Cash and cash equivalents, beginning of period	3,057,325	205,292	3,809,030	121,201
Cash and cash equivalents, end of period (note 2(a))	\$2,587,246	\$ 3,162,633	\$ 2,587,246	\$ 3,162,633

See accompanying notes to financial statements.

RAILPOWER TECHNOLOGIES CORP.

Notes to Financial Statements
Unaudited

Three and six months ended March 31, 2003

1. The Company:

Railpower Technologies Corp. (the "Company") is a public company listed on the Toronto Venture Exchange (TSX-Venture). The Company was formed under the Canada Business Corporations Act on June 30, 2001 as a result of the amalgamation of Railpower Technologies Inc. (Railpower), a private company and Envirotrain Capital Corp. (Envirotrain), a public company.

Envirotrain was a capital pool company. Railpower was a developer of new technologies with applications in rail transportation and distributed power systems. The Company continues to operate in the same line of business as Railpower.

2. Significant accounting policies:

(a) Cash and cash equivalents:

Cash and cash equivalents are defined to include highly liquid securities with original maturities of three months or less when purchased. At March 31, 2003, cash is held by two institutions, Bank of Montreal and ING Direct. Cash on deposit at ING Direct totaled \$2,537,101. Cash on deposit at Bank of Montreal totaled \$50,145 divided approximately 3/5 and 2/5 respectively between a Cdn\$ denominated account and a US\$ denominated account.

(b) Earnings per share:

The treasury stock method is used to calculate diluted earnings per share. There are no dilutive effects in the current period due to the Company's loss.

(c) Property, plant and equipment:

Property, plant and equipment are recorded at cost and amortized on a declining-balance basis at 30% per annum.

(d) Leasehold improvements:

Leasehold improvements are recorded at cost and amortized on a straight line basis over the term of the lease to which they pertain.

(e) Patents:

Patents include patent costs and patent maintenance fees. Patents are amortized on a straight line basis over the life of the patents which expire in the years 2007, 2008, 2009, 2010, and 2020. Patent maintenance fees are amortized over the period of fee coverage being 1 to 4 years.

(f) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the

RAILPOWER TECHNOLOGIES CORP.

Notes to Financial Statements
Unaudited

Three and six months ended March 31, 2003

2. Significant accounting policies (continued):

dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant balances requiring the use of estimates include accounts receivable, useful lives of capital assets and patents and accrued liabilities. Actual results could differ from those estimates. Adjustments, if any, will be reflected in operations in the period of settlement.

(g) Income taxes:

Income taxes are accounted for under the asset and liability method. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Future tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment or substantive enactment date.

(h) Foreign currency translation:

Transactions of the Company that are denominated in foreign currencies are recorded in Canadian dollars at exchange rates in effect at the related transaction dates. Monetary assets and liabilities denominated in foreign currencies are adjusted to reflect exchange rates at the balance sheet date. Exchange gains and losses arising on the translation of monetary assets and liabilities are included in the determination of income for the period.

(i) Research and development expenditures:

Research costs are expensed in the period in which they are incurred. Development costs are expensed in the period incurred unless such costs meet the criteria for deferral and amortization under Canadian generally accepted accounting principles. The Company did not meet these criteria for deferral of development costs as of the balance sheet date or in prior periods.

(j) Stock-based compensation plan:

The Company has one stock-based compensation plan, which is described in note 6(d). Effective for the Company's fiscal year beginning on October 1, 2002, the Company adopted the recommendations in CICA Handbook Section 3870 – Stock-Based Compensation and Other Stock-Based Payments, which requires that stock-based payments made to non-employees be accounted for using the fair value based method and charged to operations over the service period which normally is the period during which the options vest. There was no stock-based compensation made to non-employees during the six month period ended March 31, 2003.

RAILPOWER TECHNOLOGIES CORP.

Notes to Financial Statements
Unaudited

Three and six months ended March 31, 2003

2. Significant accounting policies (continued):

As permitted by CICA Handbook Section 3870, the Company adopted the intrinsic value method for recording employee and director stock option grants. Using the intrinsic value method, stock-based compensation is recognized to the extent that the market price of the underlying common shares exceeds the exercise price on the date of grant. As the Company only issues options with exercise prices equal to or greater than the market price of common shares, no compensation expense has been recorded related to stock option grants. However, pro-forma disclosure follows in note 6(e) which reflects the impact on the Company as if it had elected to adopt the fair value method for recording employee and director stock option grants.

(k) Revenue Recognition:

The Company currently has two sources of revenue, interest revenue on cash deposits and lease revenue on the demonstration lease of the Green Goat to Union Pacific Railroad Company. Interest revenue is recognized on a time proportion basis regardless of when the interest is received. Lease revenue from the Union Pacific lease is recognized over the term of the lease as it is earned per the terms of the lease agreement.

3. Property, plant and equipment:

	March 31, 2003 (2 nd qtr. end)	September 30, 2002 (fiscal yr. end)
Property, plant and equipment	\$ 165,777	\$ 131,515
Accumulated amortization	70,702	55,157
	<u>\$ 95,075</u>	<u>\$ 76,358</u>

4. Leasehold improvements:

	March 31, 2003 (2 nd qtr. end)	September 30, 2002 (fiscal yr. end)
Leasehold improvements	\$ 58,445	\$ 34,159
Accumulated amortization	9,159 949	
	<u>\$ 49,286</u>	<u>\$ 33,210</u>

5. Patents:

	March 31, 2003 (2 nd qtr. end)	September 30, 2002 (fiscal yr. end)
Patents	\$ 102,948	\$ 81,500
Accumulated amortization	12,858	10,858
	<u>\$ 90,090</u>	<u>\$ 70,642</u>

RAILPOWER TECHNOLOGIES CORP.

Notes to Financial Statements
Unaudited

Three and six months ended March 31, 2003

6. Share capital (continued):

(a) Authorized:

Unlimited number of voting common shares without nominal or par value

Unlimited number of non-voting preferred shares without nominal or par value

(b) Common shares issued:

	6 month period ended		Year ended	
	March 31, 2003		September 30, 2002	
	Shares	Amount	Shares	Amount
Outstanding, beginning of period	14,468,000	\$ 5,895,459	10,788,000	\$ 1,973,610
Issued for cash	250,000	256,500	3,680,000	4,363,000
Share issue costs	-	-	-	(441,151)
Outstanding, end of period	14,718,000	\$ 6,151,959	14,468,000	\$ 5,895,459

On October 17, 2002, 10,000 shares were issued upon the exercise of a share purchase warrant. The Company received consideration of \$12,500 for the shares.

On January 13, 2003, 200,000 shares were issued upon the exercise of a share purchase warrant. The Company received consideration of \$200,000 for the shares.

In February 2003, 40,000 shares were issued upon the exercise of stock options. The Company received consideration of \$44,000 for the shares.

As at March 31, 2003, 2,857,500 common shares were held in escrow in conjunction with the amalgamation.

(c) Warrants:

As at March 31, 2003, there were 2,357,500 warrants outstanding as follows:

Exercise prices	Number outstanding March 31, 2003	Expiry Dates
1.00	150,000	June 19, 2003
1.00	75,000	July 31, 2003
1.10	575,000	June 19, 2003
1.25	277,500	July 31, 2003
1.50	120,000	September 13, 2003
1.85	560,000	September 13, 2003
2.05	600,000	September 22, 2003
Outstanding, end of period	2,357,500	

RAILPOWER TECHNOLOGIES CORP.

Notes to Financial Statements
Unaudited

Three and six months ended March 31, 2003

6. Share capital (continued):

(d) Director and Employee Options:

The Company's stock based compensation plan for its directors, officers, consultants and employees allows a number of options equal to 15% of the outstanding common shares to a maximum of 3,000,000. Of the outstanding options issued under the plan, 223,500 options vest 1/3 each year, 222,000 options vest 1/2 three months and 1/2 15 months from the date of the grant, with the remaining options having no vesting period. The status of the Company's stock-based compensation plan as of March 31, 2003, and changes during the period ended on these dates are presented below:

	Number of shares	Weighted average price
Outstanding, beginning of period	1,399,000	\$ 1.21
Granted	166,500	2.02
Exercised	(40,000)	1.10
Expired	(20,000)	1.10
Outstanding, end of period	1,505,500	\$ 1.08
Exercisable, end of period	1,226,000	\$ 1.13

At March 31, 2003, the Company had reserved a total of 1,505,500 common shares related to the director and employee options:

Exercise prices	Number outstanding March 31, 2003	Exercisable at March 31, 2003	Weighted - average remaining contractual life
\$0.20	300,000	300,000	2.8 years
\$1.10	60,000	40,000	3.1 years
\$1.10	100,000	100,000	3.7 years
\$1.00	255,000	225,000	4.1 years
\$1.50	330,000	330,000	4.2 years
\$2.10	150,000	75,000	4.4 years
\$2.25	72,000	36,000	4.5 years
\$2.20	66,000	-	4.7 years
\$2.10	6,000	-	4.7 years
\$2.10	30,000	-	4.8 years
\$2.05	4,500	-	4.8 years
\$2.00	12,000	-	5.0 years
\$2.00	120,000	120,000	5.0 years
\$0.20 to \$2.25	1,505,500	1,226,000	3.7 years

RAILPOWER TECHNOLOGIES CORP.

Notes to Financial Statements
Unaudited

Three and six months ended March 31, 2003

6. Share capital (continued):

(e) Stock option compensation expense

Had compensation expense for employee share options been determined based on fair value at the grant dates of the share options and charged to operations over the vesting period of the options, the net loss and net loss per share would have been as follows:

	Three months ended March 31, 2003		Six months ended March 31, 2003	
	As reported	Pro-forma	As reported	Pro-forma
Net loss	\$ 710,363	\$ 853,195	\$ 1,433,216	\$ 1,576,048
Net loss per weighted average share – basic	\$ 0.0484	\$ 0.0582	\$ 0.0989	\$ 0.1089

The fair value of these options has been determined using the Black-Scholes option pricing formula using the following assumptions: expected dividend yield – nil%, expected stock price volatility – 75%; expected life of options – 4 years; risk-free interest rate over 4 years – 3.29%. The average fair value of options granted in the three months ended March 31, 2003 (there were no options granted in the three month period prior to period ending March 31, 2003) was \$1.1526 or \$191,914 based upon 166,500 options granted. As the expense is spread over the vesting period of the options, the amount attributable to the current three and six month periods is \$142,559.

7. Related party transactions:

At March 31, 2003, accounts payable and accrued liabilities included \$38,319 due to six officers and/or directors of the Company. These amounts were for Company expenses to be reimbursed in the ordinary course of business with the exception of \$2,500 which was payable for media relations work performed (see below) by a director of the company. The measurement basis used to measure these Company expenses to be reimbursed in the ordinary course of business was the exchange amount. At March 31, 2002, accounts payable and accrued liabilities included \$14,131 due to a director and officer of the Company.

A director of the company was paid \$7,500 in the three months ended March 31, 2003. This payment relates to media relations work the director has performed and continues to perform for the Company at a rate of \$2,500 per month. At March 31st, 2003, \$2,500 was payable to this director for media relations work performed in the month of March. The measurement basis used to measure this transaction is the exchange amount.

8. Income taxes:

Income tax expense attributable to income from continuing operations was nil for the period ended March 31, 2003 (March 31, 2002 - nil).

The tax effects of temporary differences that give rise to significant portions of the future tax assets at September 30, 2002 are presented below:

RAILPOWER TECHNOLOGIES CORP.

Notes to Financial Statements
Unaudited

Three and six months ended March 31, 2003

8. Income taxes (continued):

	September 30, 2002
Future tax assets:	
Net operating loss carryforwards	\$ 413,664
Capital assets	38,040
Financing fees	158,792
Patents	20,145
Less valuation allowance	(630,641)
Net future tax assets	\$ -

The valuation allowance for future tax assets as of September 30, 2002 was \$630,641. The net change in the total valuation allowance for the year ended September 30, 2002 was \$387,465. In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. In order to fully realize the future tax asset, the Company will need to generate future taxable income of approximately \$1,044,606 prior to the expiration of the net operating loss carryforwards starting in 2003. Taxable income for the years ended September 30, 2002 and 2001 was nil and nil, respectively. Based upon the level of historical taxable income and projections for future taxable income over the periods which the future tax assets are deductible, management has fully provided a valuation allowance for the future tax assets.

At September 30, 2002, the Company has net operating loss carryforwards for federal income tax purposes which are available to offset future federal taxable income. These operating losses expire as follows:

2003	1,000
2004	1,000
2005	19,491
2006	163,749
2007	227,627
2008	56,156
2009	575,583
	\$ 1,044,606

RAILPOWER TECHNOLOGIES CORP.

Notes to Financial Statements
Unaudited

Three and six months ended March 31, 2003

9. Commitment:

The Company has leased its head office for a term of three years expiring August 31, 2005 with monthly rent of \$7,500.

10. Subsequent Events

On April 3, 2003, Jim Maier was appointed President and CEO and a Director of RailPower. Jim Maier was granted 400,000 stock options at an exercise price of \$2.00 per share for a period of 5 years.

Also on April 3, 2003, Norm Gish, Chair of the Company, was granted 50,000 stock options at an exercise price of \$2.00 per share for a period of 5 years.

On May 15, 2003, the Company retained The Equicom Group Inc. to provide strategic investor relations and financial communications services for an initial period of 12 months commencing May 15, 2003. The monthly retainer is \$5,000.

11. Projects under development

The Company has four projects under development, the Green Goat hybrid locomotive, the Green Kid hybrid locomotive, the Compressed Integrated Natural Gas Locomotive (CINGL), and rDirect. While the Company either holds patents or has filed patents in respect of all these technologies, the focus has been and remains the hybrid locomotives. As such, expenditures on the CINGL and rDirect are not material relative to expenditures on the Green Goat and the Green Kid.

As at March 31, 2003, the Company has spent \$ 1,224,649 and \$ 468,966 to date respectively on direct non capital expenses towards the Green Goat and Green Kid projects excluding salaries which are not allocated to the individual hybrid projects due to the considerable overlap. As at March 31, 2003, the Company has spent a total of \$ 683,734 to date on Research and Development salaries towards the combined Green Goat and Green Kid projects.

RAILPOWER TECHNOLOGIES CORP.

Schedule of Expenses
Unaudited

	3 Months Ended March 31		6 Months Ended March 31	
	2003	2002	2003	2002
General and administrative:				
Amortization	\$ 7,542	4,375	\$ 14,464	\$ 8,750
Consulting	-	1,501	-	1,693
Foreign exchange	765	(111)	2,018	(596)
Internet	412	195	1,403	570
Miscellaneous	2,111	3,900	3,650	4,292
Office	13,132	6,437	23,942	11,273
Professional fees	32,182	22,599	61,272	29,772
Rent	12,856	618	23,305	7,666
Media Relations	7,500	-	7,500	-
Regulatory	17,818	17,434	32,951	18,928
Recruitment	432	-	1,347	-
Salaries	76,597	37,785	145,673	67,889
Travel, promotion	25,666	8,596	50,627	16,970
	197,013	\$ 103,329	\$ 368,152	\$ 167,207
Research and development:				
Components	\$ 346,313	41,393	\$ 751,936	\$ 124,574
Miscellaneous	9,600	12,406	28,783	18,079
Rent	14,256	1,050	25,405	2,381
Salaries	127,498	45,831	230,638	93,522
Amortization	5,833	-	11,290	-
Consulting	-	-	5,483	-
Travel	47,039	-	71,667	-
	\$ 550,539	\$ 100,680	\$ 1,125,202	\$ 238,556

ISSUER DETAILS

For Period Ended: March 31, 2003

Date of Report: May 30, 2003

Name of Issuer: **RailPower Technologies Corp.**

Issuer's Address: 202 – 50 Fell Avenue
North Vancouver, British Columbia
V7P 3S2

Issuer's Fax Number: (604) 904-1186

Issuer's Telephone Number: (604) 904-0085

Contact Person: Alain Voisin

Contact Position: CFO/Controller

Contact Telephone Number: (604) 904-0085 ext. 202

CERTIFICATE

The schedule A: Financial Statements required to complete this Quarterly Report are attached and the disclosure contained therein has been approved by the Board of Directors. A copy of this Quarterly Report will be provided to any shareholder who requests it.

Director's Name: "James E. Maier" Date signed: May 29, 2003

Director's Name: "Frank W. Donnelly" Date signed: May 29, 2003