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# LETTER TO SHAREHOLDERS

## A YEAR OF REMARKABLE PROGRESS

PowerTech made remarkable progress during the last fiscal year that was marked by the Company's stock market debut last February. We are proud that all throughout the past year we achieved several major commercial, financial and technological milestones in our development plan.

Today, PowerTech is a company with a clear vision, a strong management team, high quality, patented technology and a well structured and ambitious commercial development plan. We are confident that the 2006 fiscal year will enable us to reap the harvest of this exceptional combination of talents, strengths and assets. In this respect, last October's purchase of PicBucket units by Aecon, a Canadian construction giant, is certainly a very encouraging sign for the Company.

### Several business development initiatives

With regard to commercial development, we launched several initiatives over the last fiscal year, including the highly successful V.I.PIC program. This program allowed many entrepreneurs to evaluate the remarkable performance and efficiency of our percussion buckets at real construction sites. We are very hopeful that several of the program's participants will soon purchase a PicBucket.

The V.I.PIC program enables select entrepreneurs to try out the PicBucket or the PicHammer for a set period and then buy these products at a preferred price. In return, the participating companies accept to publicly express their appreciation for our technology. The V.I.PIC program provides powerful leverage to quickly raise awareness about our technology in target markets, such as Ontario and Quebec. We are preparing to implement this program in Europe in collaboration with a large original equipment manufacturer that has shown a great deal of interest in our technology. To begin with, two PicBuckets will be put to the test.

In recent months, we also initiated the establishment of the V.I.PIC program in the United States. In addition, during the year 2006, we intend to open a sales and service office in the United States in order to support our business development work in that country. In particular, our efforts are focused on the development of a market in the Northeast of the United States, where the highest concentration of construction entrepreneurs is found. Last fall we also conducted trials of the PicBucket in the States of Nevada and Arizona to verify the PicBucket's efficiency in "caliche", a hard and abrasive soil. This type of soil usually requires that the digging be carried out using several attachments. The trials showed that the PicBucket could easily do the job alone, thus replacing all those attachments.

### High calibre partners

Another key part of our business development strategy involves creating, in the short-term, agreements with high-calibre partners, such as major original equipment manufacturers, as well as leading construction equipment distributors. It is with this in view that we recently struck a long-term partnership agreement with the company Atlas Copco, a world-class industrial group. As part of this agreement,



Atlas Copco will act as a preferred supplier and technological partner for PowerTech in the development of powerful hydraulic cells that meet the PicBucket and PicHammer's technical specifications. By supplying them with their percussive power, these hydraulic cells play a key role in the functioning of PowerTech's products.

In addition to securing the supply of a key component of our products, this agreement will also support our international expansion projects. Atlas Copco will contribute the assistance of its vast network of customer service centres to support PowerTech's business development efforts. Atlas Copco distributes its products in about 150 countries worldwide and has a sales volume of more than \$7 billion US.

In addition to this agreement with Atlas Copco, we are currently in discussions with several other potential partners that are highly interested in our technology. Also, we have held discussions with some companies working in specialized markets in which our technology meets specific needs. We are confident that these various discussions will soon result in concrete achievements, such as our agreement with Atlas Copco.

### **Technological development**

On the technological front, at the beginning of the last fiscal year PowerTech successfully completed the commercial versions of the PicBucket 2000 series and PicHammer, demonstrating its ability to "deliver results". Furthermore, we have undertaken qualification trials for our series 1000 mini-excavator product line. We expect to commercialize this new model as of summer 2006. Among the various types of excavators, the mini-excavator market is currently experiencing the strongest growth. During the year 2006, we also intend to develop the PicBucket 5000 series to meet the need for the largest type of excavator (20 tons and more). This equipment category represents the biggest part of the worldwide market for excavators.

To provide the Company with the production capacity necessary to support its short and medium term business development, PowerTech will soon move to a new building located in the Haut Terrebonne industrial park where the Company will initially occupy 11,400 feet of floor space and temporarily sublet an equivalent-sized space for future expansion projects. These locations have been fitted to meet PowerTech's various needs in an optimal manner.

Furthermore, we are pleased that we have been able to count on a diverse base of investors to finance our business activities. Indeed, PowerTech has successfully carried out various financing activities during the last fiscal year, including a \$2 million private placement linked to its merger with the capital pool company, CMJ Capital Inc., a transaction that resulted in the Company's entry on the TSX Venture Exchange. Last August, PowerTech carried out a new \$1.5 million private financing through the issuance of a convertible debenture with the company SIPAR Inc. We are confident that in the future we will still be able to count on the support of quality investors when required in order to pursue and accelerate our development plan and growth. On this note, we wish to take this opportunity to thank all of PowerTech's shareholders and investors for their support and confidence in 2005.

PowerTech has major potential for growth and development. There are approximately 3 million backhoe, excavators and mini-excavators in the world that could use our technology, of which 500,000



must be replaced each year. In North America alone, there are over 1 million companies that could be interested in purchasing our products. We have developed advanced technology that allows these companies to benefit from significant advantages, including substantial efficiency gains and significant cost reductions. Over the last year, PowerTech brought together all the ingredients required to break into this vast market and we are confident going forward that the Company will achieve its development objectives.

Carol Murray  
President and Chief Executive Officer  
Power Tech Corporation Inc.



## HISTORICAL BACKGROUND

### PROVEN AND POWERFUL TECHNOLOGY THAT GREW OUT OF A BRILLIANT AND INGENIOUS IDEA

The technology developed by PowerTech, a versatile percussion bucket, was first conceived in 1996 by an operator of excavators and mechanical shovels who was well aware of the needs of this industry and the limits of the equipment then available on the market. After the development of the initial designs of promising buckets, a first patent was filed in September 1996 for coverage in the United States. Then, in the spring of 1999, this same patent was extended to Canada, France, Italy, Germany, Austria, Spain, the United Kingdom and Switzerland via the Patent Cooperation Treaty (PCT).

From 1997 to 1998, several prototypes of the buckets and accessories were successfully developed and tested. In March 1998, a second patent was filed with the PCT in order to widen the protection of the first patent. This second patent was accepted in September 2000 and extends to the same countries as the first patent. For the next few years, the development of commercial prototypes of the bucket was put on ice due to a lack of financial and organizational means. This is when PowerTech stepped in.

#### **The creation of PowerTech**

PowerTech, and its operating subsidiary, PowerTech Canada Inc., were created in the fall of 2003 with the support of some key investors, including Carol Murray, engineer and M.Sc., who is today PowerTech's President and Chief Executive Officer. The Company was started with the specific goal of acquiring the percussion bucket technology and doing the fine-tuning required to bring it to market. In May 2004, PowerTech acquired the patents. It completed the final design of the first commercial versions of the products in winter 2004-2005. These first products were the PicBucket and the PicHammer Series 2000. In July 2004, a new patent application was filed by PowerTech to increase protection for the recent improvements integrated into the technology; improvements that could also eventually be used in future applications.

To raise the capital needed to implement its business development strategy, PowerTech made its debut on the TSX Venture Exchange (symbol: PWB) in February 2005. It achieved this through a merger with CMJ Capital Inc., a capital pool company (CPC). In October 2005, the Company sold its first PicBucket units to Aecon, a giant in the Canadian construction industry.



## THE TECHNOLOGY

### THE PICBUCKET AND THE PICHAMMER: SETTING A NEW PERFORMANCE STANDARD FOR THE CONSTRUCTION INDUSTRY

In 2005, PowerTech brought to market a highly innovative new technology that is destined to set a new performance standard for construction work and certain specialized applications.

The Company has succeeded in developing an efficient, versatile and rugged percussion bucket capable of attacking and digging soil from multiple angles of impact. The underlying concept combines into one tool the power of a hydraulic hammer and the stripping strength and manoeuvrability of a traditional bucket. Thousands of hours of endurance and resistance testing, as well as worksite trials with experienced user-operators, have allowed for the testing of this technology under the most challenging of conditions. The buckets are shovels located at the end of the mechanical arms of backhoes "backhoe loaders" on excavators and mini-excavators.

#### Major productivity gains

The PicBucket and the PicHammer, the two products developed and marketed by PowerTech from its core technology, enable users to achieve major productivity gains while executing various types of construction work, in particular: excavation, demolition, stripping, backfilling and compaction. Efficiency gains observed up until now often exceed 100%, depending on the kind of work being performed.

The PicBucket is a powerful percussion bucket made multifunctional thanks to its various interchangeable accessories. These include the "PicPins", a three-point demolition set; the "PicBlade", a blade for cutting and demolition; the "PicGrate", a flat blade, and the "PicPlate", a plate used for compacting. As its name indicates, the PicHammer is a pick hammer of exceptional power and precision. The PicHammer can be equipped with the same accessories as the PicBucket, thus transforming it into a super-tool ideal for demolition, cutting and compacting work.

#### A multitude of applications

Thanks to its interchangeable accessories, ruggedness and flexibility, the PicBucket can, alone, perform the work of several traditional pieces of equipment. Because of this, the PicBucket can be used for multiple tasks, including:

- road and sidewalk repair;
- channelling work;
- construction site repair;
- cement structure demolition;
- building demolition;
- foundation work;
- waterway construction and/or maintenance;



- contaminated soil removal;
- swimming pool digging and trenching;
- gas or water pipe installation;
- burying telephone or telecommunication lines or cables;
- septic tank installation.

The products developed by PowerTech offer a solution that meets the pressing needs of the construction industry, an industry that is constantly looking for efficiency gains. PowerTech's technology makes everyone a winner, since it is a profitable solution for every link in the chain: construction machinery and equipment distributors, project managers, entrepreneurs and excavator operators.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal year ended September 30, 2005

The Management's Discussion and Analysis is intended to help the reader better understand the operating and key financial results of Power Tech Corporation Inc ("Power Tech") (TSX-V: PWB). This analysis, prepared in accordance with National Instrument 51-102 (Continuous Disclosure Obligations), should be read in conjunction with the notes accompanying the Corporation's financial statements for the fiscal year ending September 30, 2005.

## INTRODUCTION

This fiscal year is the company's first complete year in operation and its first as a listed company on the TSX Venture Exchange. The 2005 fiscal year covers a thirteen month period from September 1, 2004 to September 30, 2005 as the company's fiscal yearend was modified from August 31 to September 30.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and reported in Canadian dollars.

For more information on the company, please consult the company's SEDAR filings at [www.sedar.com](http://www.sedar.com).

## COMPANY OVERVIEW

Power Tech Corporation Inc. specializes in the development, integration and commercialization of specialized technologies aimed at substantially improving the performance, productivity and functionality of excavation equipment and industrial excavation systems. Market focus includes the general construction industry and specialized applications in the aluminium industry, mining, tunnelling, and the military.

The company owns the intellectual property behind the technology used in its principal product, the PicBucket. The PicBucket is an excavation bucket integrated with a hydraulic cell that holds tools that are interchangeable depending on the desired application. This innovative combination has the opportunity to revolutionize the excavation industry where, up until now, no product could offer the combined performance characteristics offered by this unique technology.

## VISION AND STRATEGIES

The market for potential uses of Power Tech products is vast and the advantages for users are great. Power Tech's vision is to become the new standard for all industries that can benefit from this technology.



Power Tech's **strategy** is to put forth the **revolution, versatility** and **productivity improvements** that this technology represents. The company wants to demonstrate to users that for a lower price, they will benefit from the synergies created by being more productive, and therefore more profitable, compared to using various independent pieces of equipment for the same work.

Prior to the introduction of this technology, there have been very few meaningful technological advances in the excavation industry in recent years. While this opens up a market in need of something new, the primary obstacle to acceptance of the technology is the traditional mindset of the industry.

To overcome this challenge, Power Tech's short term strategy, deployed in 2005 and continuing into 2006, is a "market pull" approach to get the company's products to users who believe in the technology and will provide testimonials, demonstrations and word of mouth promotion. Using a marketing initiative called the V.I.Pic program, units are given to targeted users for a test period with an option to purchase at a preferential price at the end of the agreement. At the same time, business development efforts with local distributors and partners are helping create a "push and pull" effect to generate additional exposure.

Additionally, industry shows, fairs and expositions are used as opportunities to give the company and its products the exposure needed to create a buzz in the industry. In the last few months there has been significant progress made in the geographic regions where these demonstrations for a number of potential clients have taken place. Following these actions taken by the company, there is an increase in the excitement of a new, revolutionary technology. The sales cycle for major clients, however, is relatively long but all of these efforts are in line with our business development and marketing plans. We anticipate that this strategy will generate revenues in the short term.

## **GENERAL OVERVIEW AND DEVELOPMENT STATUS REPORT - 2005**

Power Tech has evolved greatly in the last thirteen months. Major progress has been realized in terms of product development, business and marketing initiatives and financing. The company has evolved from a startup in the product development phase to being in full scale commercialization, working towards the value-added business partnerships and relationships needed to bring the company to its next level of development.

The company and its technology have been on display during the year at a number of industry shows across North America. It has demonstrated its products in front of potential partners and clients across the continent in a variety of different work, soil and climatic conditions. Targeted marketing programs have been implemented and a focused business development plan has been rolled out. All of these accomplishments in the last thirteen months have put the company in a solid position as it embarks into full scale commercialization.

Indeed, subsequent to September 30, 2005, the company has completed its first sale. On October 24, 2005 a contract with *The Aecon Group*, an early participant in Power Tech's V.I.Pic marketing program and one of Canada's largest construction companies, was finalized. This is a critical milestone in the development of the company, especially a transaction with a company of Aecon's size and reputation.



### **Development Status Report**

While Power Tech's principal technology has just begun full scale commercialization and revenues are beginning to be generated, Power Tech remains a company in the development stage.

Power Tech's one *project* since its inception has been the development of an excavation bucket with an integrated hydraulic cell to offer percussion power in all types of work and all angles of attack. The development work on the technology is complete for the Series 2000 which targets 6-12 ton backhoes. The development work that continues is the application of that same technology to the development of new series for smaller and larger excavators as well as additional accessories to be used with the PicBucket.

The company's plan for the project is simple – to engineer a product that is efficient, durable and robust for its users and able to be manufactured on a large scale with high quality and consistency. The company believes that these goals have been met and efforts now are focused primarily on sales generation through business development and marketing initiatives aimed at getting the product onto construction work sites and in front of potential clients and partners during product demonstrations.

It is anticipated that these efforts will pay off with a significant increase in generated revenues within a few months. To date, \$540,000 has been spent on the development and testing of the technology and an additional \$494,500 has been spent on preliminary marketing efforts, creating a product positioning, company website, promotional materials, industry shows, market studies, commercialization plan, etc. It is expected that an additional \$175,000 will be necessary in coming months to finalize development of the PicBucket's accessories and create additional, specific marketing tools and programs necessary to penetrate targeted markets. As sales efforts of the Series 2000 PicBucket progress, additional resources will be dedicated to the development of Series 1000 for mini-excavators and Series 5000 for excavators greater than 20 tonnes.

### **YEAR IN REVIEW – FINANCING HIGHLIGHTS 2005**

From a financial perspective, there were some key transactions that highlighted 2005 and provided the company with the resources needed to pursue the strategic opportunities that were presented during the year.

- **Public listing of the company on the TSX Venture Exchange**

An important accomplishment in 2005 was Power Tech's listing on the TSX Venture Exchange thanks to a reverse takeover with capital pool company CMJ Capital Inc. ("CMJ") on February 11, 2005.

CMJ acquired all the outstanding Class A shares of Power Tech Corporation Inc. in consideration for the issuance of 17,750,000 CMJ common shares on the basis of 169,047.6 CMJ common shares for each Class A common share of Power Tech. For accounting purposes, this transaction was a capital transaction in substance for Power Tech and resulted in the allocation by Power Tech of a value to the 5,000,000 shares issued to CMJ on February 11, 2005 equal to the value of CMJ's net monetary assets amounting to \$572,893 at that date, considering a deduction of fair value allotted to the new stock



options issued. Subsequent to this reverse takeover, the companies merged and the merged company continued under the name of Power Tech Corporation Inc. (TSX-V: PWB). The new 400,000 stock options granted replaced the 400,000 stock options granted by CMJ following the merger. These options are exercisable at a price of \$0.25 until January 25, 2006 and were valued at an amount of \$85,000 at the date of merger.

Concurrent to the reverse takeover described above, the company issued 5,000,000 units (each unit comprised one share and one warrant) for gross proceeds of \$2,000,000 accounted for partially as Capital Stock (\$1,043,000) and partially as Warrants (\$957,000). The warrants allow for its holders to purchase one common share at a price of \$0.60 for the two years following the financing's closing date.

- **Reimbursement of ten convertible debentures**

Between the months of March and July, 2004, the company issued a total of ten convertible debentures for a total of \$655,000.

On February 11, 2005, the company proceeded to reimburse the convertible debentures with the proceeds of the private financing realized at the same time. The total of the reimbursement was \$696,701 (\$655,000 of capital and \$41,701 of interest) which was distributed proportionately between the liability components of the convertible debentures and the equity component of the convertible debentures according to the initial allocation.

This transaction results in a gain on the settlement of the liability component of the convertible debentures for an amount of \$35,150 shown on the income statement and a premium on the settlement of the equity component of the convertible debentures for \$4,820 shown on the company's statement of deficit.

- **Completion of a convertible debenture financing with SIPAR, inc.**

In August, 2005, the company completed a \$1.5 million transaction with SIPAR, inc., a renowned Quebec-based investor. This most recent financing, in the form of a 5 year convertible debenture with an interest rate of 12.95% and expiring August 2, 2010, allows for conversion at anytime into one Power Tech common share and one additional equity warrant at an initial price of \$0.70 per share. The conversion price will increase according to the minimum provisions set out by the stock exchange.

The funds generated from these financings have allowed the company to intensify its business development activities, specifically in Canada and the United States.

- **Receipt of government aid**

During the year, Power Tech was accepted for two government aid programs. The first, a federal program through Canada Economic Development, assists the company in the development costs of its third patent in addition to supporting the costs related to selected sales and marketing initiatives. The assistance is in the form of a long term debt with zero percent interest.

A maximum contribution of \$97,500 has been authorized. As of September 30, 2005 the Corporation had received amounts totalling \$47,293. Repayments, with no interest, are reimbursable in ten semi-annual instalments of \$9,750 starting in June, 2008 and ending January, 2013.



This contribution was classified as part revenue (\$26,637) and part long term liability (\$20,656) valued using a rate of 18%, considering the market rate for a similar financial instrument.

The second program, a non-reimbursable grant from the provincial government, assists the company in various costs with the goal of generating sales through product demonstrations in front of potential clients and partners. During the fiscal year of 2005, no monies were received for this program, but an amount receivable of \$56,126 was accrued for expenses already incurred but not yet received as of September 30, 2005.

## SELECTED FINANCIAL INFORMATION

	2005 (395 days)	2004 (308 days)
Revenues	0	0
Net Loss	(1,773,235)	(364,099)
Basic and Diluted net loss per share	(0.08)	(0.02)
Total Assets	2,530,673	394,303
Total long term liabilities	1,419,731	607,966
Cash on Hand	1,376,376	46,794

As of September 30, 2005 the company has earned no revenues and is considered to be in the development stage. The activities of the company are concentrated around one project, the development of the technology from which the *PicBucket* and *PicHammer* originate. Power Tech owns all patents related to the technology used to develop this product. Together, the assets and liabilities of the company are dedicated solely to the development and commercialization of this technology.

## RESULTS OF OPERATIONS

The company has spent the last fiscal year in transition to its current state in the product-ready, commercialization phase. The progression in that period, both operationally and financially, has been significant compared to the previous fiscal year. Therefore, direct comparison to financial results from the same period last year compares a company in two very different stages of development.

### Revenues

The company earned no revenues from operations for the year. As mentioned, subsequent to the September 30, 2005 yearend, the company's first revenues have been earned as a result of the effectiveness of its V.I.Pic marketing program.



## **Administrative and Sales & Marketing Expenses**

Administrative expenses totalled \$1,240,727 for the year ended September 30, 2005 versus \$266,213 for the same period last year. Significant portions of this expense include salaries and wages (\$306,060), the administrative compensation cost associated with company stock options (\$331,485) and professional and legal fees (\$200,700).

Selling expenses totalled \$454,508 versus \$40,001 for the same period last year. The majority of these expenses were incurred due to the addition of one full time sales employee and two full time consultants, the development of a strategic marketing plan, marketing tools and promotional collateral by a third-party marketing firm as well as participation in a number of industry shows and expositions.

## **Financing Costs**

The financing costs of \$58,467 are considerably more than the \$28,746 last year. The majority of these expenses are from interest accumulated on the company's issued convertible debentures.

During the course of the year, the company reimbursed ten convertible debentures issued in 2004 between the months of March and July. These debentures were reimbursed on February 11, 2005 for a total of \$696,701 of which \$41,701 was accrued interest.

The addition of another convertible debenture on August 2, 2005 for \$1,500,000 was also accounted for with a portion of capital and a portion debt. The debt portion was determined by assuming 18% interest plus the original capital. The equity component of the debentures was the difference. As of September 30, 2005 there was \$12,479 of interest accrued on this debenture.

## **Fixed Asset Amortization**

Amortization of the company's fixed assets totalled \$22,176 for the year ended September 30, 2005 versus \$2,499 in the previous year. The base of fixed assets has slowly accumulated over time with the additional needs of a larger employee base and a growing operation. With that growth in fixed assets, amortization has increased in tandem.

## **Other Assets Amortization**

The amortization of intangible assets is comprised of three parts: patents, deferred development costs and financing costs, totalled \$78,631 compared to \$26,640 for the previous fiscal year.

The amortization of deferred development costs during a 13 month year and the addition of development costs, financing costs and capitalized patent fees explain the increase in amortization.

## **Other Revenue**

Other revenue is made of three components: the gain on the settlement of the liability component of convertible debentures, government grants and monies earned on interest bearing deposits.



As discussed above, the February 14, 2005 settlement of the ten convertible debentures issued in 2004 resulted in a gain on the liability portion of the debt of \$35,150.

The monies received from the federal government during the year were accounted for as part liability and part revenue. The revenue portion of this government assistance totalled \$26,637 for the year.

Interest revenue of \$19,487 was earned during the 2005 fiscal year from cash deposits made in interest-bearing short term investments in Canadian financial institutions.

### **Net Loss**

The net loss for the fiscal year is \$1,773,235. This loss is an accumulation of all the expenses already explained above. It is significantly higher than the \$364,099 last year due to the substantial efforts invested in business development and marketing efforts in addition to the ongoing administrative expenses of the business.



## SUMMARY OF QUARTERLY RESULTS

Below is a summary of the five periods for which Power Tech has published financial statements. While the periods outlined below are not all equal, the reporting period is now normalized with a September 30 fiscal year end. Clearly, as the company has allocated more and more resources to its commercialization and business development activities, the net loss has increased over time.

Quarter ended	Revenues	Net Loss	Net loss per share	
			Basic	Diluted
September 30, 2005	\$ 0	\$ (381,710)	\$ (0.02)	\$ (0.02)
June 30, 2005	\$ 0	\$ (511,357)	\$ (0.02)	\$ (0.02)
March 31, 2005 (4 months)	\$ 0	\$ (637,655)	\$ (0.03)	\$ (0.03)
November 30, 2004	\$ 0	\$ (242,513)	\$ (0.01)	\$ (0.01)
Year ended August 31, 2004 (308 days)	\$ 0	\$ (364,099)	\$ (0.01)	\$ (0.01)

Notes:

1. The first financial statements for Power Tech were prepared as of August 31, 2004 and covered a period of 308 days from the beginning of its incorporation in October, 2003.
2. Since the completion of its reverse takeover with CMJ Capital Inc. in February, 2005, Power Tech has 27,750,000 outstanding common shares outstanding as of September 30, 2005. These shares were issued in three stages: the 5,000,000 shares issued in CMJ were converted into 5,000,000 common shares of Power Tech, 17,750,000 common shares were issued as part of the transaction in exchange for the 105 outstanding Class A Power Tech shares and finally, the private financing at the same time as the reverse takeover resulted in the issuance of 5,000,000 shares.

In addition, 2,104,000 options and 5,000,000 warrants are outstanding. Therefore, the total number of fully diluted shares outstanding is 34,854,000. However, these options and warrants were not included in the computation of diluted loss per share because the effect would be anti-dilutive. A summary of outstanding shares is outlined below:

	As at September 30, 2005	As at August 31, 2004
Common shares outstanding	27,750,000	17,750,000
Stock options issued	2,104,000	—
Share warrants outstanding	5,000,000	—
Fully diluted shares outstanding	34,854,000	17,750,000

The amounts reported in the financial statements and this report for the periods prior to February 11, 2005 represent a continuity of operations of Power Tech. The number of shares of the Corporation



issued prior to the reverse takeover has been retroactively restated to reflect the number of shares issued in the reverse takeover transaction. The computation of earnings per share was also affected by this transaction for all periods presented.

## **BALANCE SHEET**

### **Cash**

Cash on hand at September 30, 2005 was \$1,376,376 versus \$46,794 at August 30, 2004. The merger with CMJ Capital Inc. in February, 2005 allowed the company to acquire \$540,594 and the concurrent private financing generated an additional \$2,000,000. These two transactions, coupled with the convertible debenture financing with SIPAR in August, 2005 explains the major increase in cash on hand.

### **Current Assets**

Current assets have increased significantly between August 31, 2004 and September 30, 2005 from \$136,157 to \$2,165,993. The most significant changes in current assets over the last year have been cash on hand, inventory and accounts receivable. Significant investments in on-hand inventory ready for sale has increased to \$533,633, an increase of \$521,142 since the end of August, 2004.

### **Current Liabilities**

Accounts payable and accrued liabilities increased substantially by \$130,176 as a result of the increased level of activities in all areas of the company.

### **Fixed Assets**

The capitalized value of fixed assets has increased by \$28,779 from August 31, 2004. Fixed asset purchases totalling \$50,955 have been made in industrial equipment and office and computer equipment for new employees. Amortization of \$22,176 decreased the book value of these assets.

### **Intangible Assets**

The company's intangible assets are its intellectual property, specifically patents. The deposit of a third patent to enlarge the coverage of the initial two and take into consideration the many improvements made to the technology was underway during the year. The investment in this third patent resulted in the increase of amounts capitalized as an intangible asset by \$14,165 (costs incurred of \$21,272 minus amortization of \$7,107) from August 31, 2004 to September 30, 2005.

### **Deferred Costs**

Deferred development costs totalled \$134,871 at September 30, 2005 which represents an increase of \$11,894 from August 31, 2004. During this period, development efforts focused on the completion and then fine tuning the design of the first sellable products (including new and improved accessories and



tools) and developing complementary products for different segments of the excavation industry. More recently, minor changes to the product to improve long term durability were performed and tested. These changes represented a gross amount of \$170,213 before the research and development tax credits of \$88,578. A charge of \$69,741 in amortization has reduced the value of these deferred development costs.

The company has capitalized financing fees related to the issuance of a convertible debenture for an amount of \$53,479 in 2005. An amortization charge of \$1,783 was booked on these financing fees.

### **Long Term Debt**

At the end of August, 2004 the company had ten convertible debentures in circulation that had a liability component value of \$607,966. As has been previously mentioned, this long term debt was eliminated when the company reimbursed all the outstanding convertible debentures with funds generated from the \$2,000,000 private financing for an amount of \$696,701.

Subsequent to that reimbursement, and as previously mentioned in this report, the company issued another convertible debenture in August, 2005 and the liability component of that debenture is valued at \$1,398,820 as of September 30, 2005.



## STATEMENT OF CASH FLOWS

### Cash used for Operating Activities

Cash used for operating activities for the year ended September 30, 2005 totalled \$2,022,783. The majority of these cash outflows are explained by the ongoing sales, marketing and business development activities as well as the company's administrative expenses.

The net variance of non-cash elements of the company's working capital also had a significant negative contribution to the cash related to operating activities of \$702,779 explained primarily by a significant increase in available inventory for sale and accounts receivable.

### Cash provided by Investing Activities

Investing activities for the year consumed \$207,341. The investment in property, plant and equipment totalled \$50,955, patent development fees were \$21,272 and deferred development costs totalled \$135,114

### Cash provided by Financing Activities

Financing activities for the year that generated cash of \$ 3,559,706 are dominated primarily by four transactions that have been mentioned in detail previously in this report. The reverse takeover with CMJ resulted in the acquisition of \$540,594. Concurrent to this transaction, the company issued units for proceeds of \$2,000,000 in the form of a private financing. The ten convertible debentures issued in the previous fiscal year were reimbursed using the proceeds of the private financing for an amount of \$696,701. Finally, a private financing of \$1.5 million in the form of a convertible debenture was completed with SIPAR inc.

## FINANCIAL POSITION

As of September 30, 2005, the company has working capital of \$1,961,196 including \$1,376,376 of cash and cash equivalents. The amount of working capital on hand has increased by an amount of \$1,899,660 since the end of the last fiscal year, August 31, 2004.

Subsequent to the end of the fiscal year, the company has begun to earn revenues and the company believes this to be the beginning of a steady growth in revenue generation. With a multitude of potential opportunities for sales growth, the company realizes that additional funds may be necessary in the future to capitalize on the business development opportunities that have presented themselves. In the short term, however, and based upon expected sales growth, the company expects sufficient resources are on hand for financing its operations for the next twelve months.

Although the company expects to generate significant revenues in the short term, it must be considered that the corporation has incurred significant losses since its inception and may have future capital requirements, especially for technology development, and special marketing programs to penetrate targeted markets. While the \$1.5 million financing in August, 2005 provides funds for at least the next 12



months, the Corporation wishes to fund its future capital requirements mainly by way of available cash and cash equivalents and eventually by way of debt or equity at an acceptable price for the company. The corporation's future ability to generate sufficient medium and long-term capital depends on various factors, including general economic conditions, technological advancements, market acceptance of its technologies and competition over and above other risks described in the section "risks and uncertainties".

## CONTRACTUAL OBLIGATIONS

As of September 30, 2005, Power Tech has two contracted obligations – one for an equipment lease, and another for a vehicle lease.

### New Building Lease

In addition, the company has entered into a 15 year lease agreement for a new building currently under construction. The construction will provide the company with a building that has been built specifically for its needs with an expected completion date of March, 2006. Power Tech will be the sole lessee and has a purchase option exercisable after five years.

The lease becomes effective upon delivery of the building to Power Tech which is expected to be March 1, 2006. The rent payments for the first five years are already established. Rent for the following 10 years of the lease will depend on the interest rate in effect when the mortgage of the building is renewed in 5 years. The interest rate negotiated for the first five years has been assumed to calculate rent payments for the following 10 years.

The above listed commitments call for the following remaining minimum payments in the coming fiscal years:

	Total	2006	2007/2008	2009/2010	Subsequent Years
Equipment Lease	\$ 8,450	\$ 1,990	\$ 3,980	\$ 2,480	\$ 0
Vehicle Lease	\$ 28,650	\$ 8,000	\$ 16,000	\$ 4,650	\$ 0
Building Lease	\$ 3,028,600	\$ 136,960	\$ 459,220	\$ 440,370	\$ 1,992,050
<b>TOTAL</b>	<b>\$ 3,065,700</b>	<b>\$ 146,950</b>	<b>\$ 479,200</b>	<b>\$ 447,500</b>	<b>\$ 1,992,050</b>

## RELATED PARTY TRANSACTIONS

### Commitment

The above mentioned lease agreement is with 6316123 Canada Inc., a company which is 50% owned by Carol Murray, President and Chief Executive Officer (C.E.O.) of Power Tech Corporation Inc and Pierre Gagnon, Vice President Operations of Power Tech Corporation Inc. who are also shareholders of the company. No payments were made in the 2005 fiscal year and the first payments are forecast to be in March, 2006.



In addition, the company has guaranteed, to a maximum of 25%, the mortgage loan contracted with 6316123 Canada Inc. for the above mentioned building totalling \$1,200,000.

This transaction is strategically important for two major reasons – first, the building provides the company with space, designed specifically for its needs, required for future growth and secondly, the personal investment by Mr. Murray and Mr. Gagnon provides the company with additional financial flexibility by avoiding a significant cash outflow for the initial investment required for the construction of a new building.

### **Research and Development**

During the year, Power Tech purchased \$12,500 of equipment, of which \$11,500 was accounted for as development costs, from a company solely owned by Carol Murray, Power Tech's President and C.E.O. and Pierre Gagnon, Power Tech's Vice President Operations.

This technology was intimately related to the development of the percussion technology and its associated products.

## **SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES**

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on management's experience and other assumptions considered reasonable under the circumstances. Readers are encouraged to refer to notes 2 and 3 of the audited annual financial statements as of September 30, 2005 for a full description of all significant accounting policies. More precisely, the management of Power Tech has identified the following critical accounting policies:

### **Going Concern**

The financial statements were prepared by management in conformity with Canadian Generally Accepted Accounting Principles based on the going concern concept, which assumes the company will be able to generate sufficient funds to pay off its obligations during normal business operations for the foreseeable future.

The Company suffered a net loss of \$1,773,235 during the current year [\$364,099 in 2004] and has an accumulated deficit of \$2,196,997 as of September 30, 2005 [\$364,099 in 2004]. The Company expects to have future capital requirements, especially for technology development, marketing initiatives, and debenture and long-term debt servicing. The Company wishes to fund its future capital requirements mainly by way of available cash and cash flows from operations. The Company realized its first sales within the framework of its V.I.Pic marketing program on October 24, 2005. The Company's future ability to generate sufficient short-term and long-term capital depends on acquiring additional sales and financing and various factors, including general economic conditions, technological advancements, market acceptance of its technologies and competition.



At this point in time, the Company has begun the process of realizing a private or public financing. The completion date of this process is targeted for the spring of 2006. However, the realization of these objectives is not assured at this time. The current financial statements contain no reclassification of assets or liabilities that would be necessary if the company demonstrated an inability to continue its operations.

#### **Fixed Assets depreciation**

Fixed assets are reviewed for impairment when events or circumstances indicate that costs may not be recoverable. Impairment exists when the carrying value of the asset is greater than the undiscounted future cash flows expected to be provided by the asset. The amount of impairment loss, if any, which is the excess of net carrying value over fair value, is charged to income for the period.

Actually, management estimates that no events or circumstances occurred that would support a write-down of long-lived assets.

#### **Stock-based compensation and other stock-based payments**

The company has adopted a stock based compensation plan to use as a tool in effectively remunerating employees, directors, consultants and suppliers of the company.

The company recognizes a compensation expense in respect of the stock options granted under the plan that does not provide for a cash settlement. These options are measured at fair value using the Black-Scholes option pricing model at the grant date, and this fair value is expensed during the period from the grant date to the vesting date.

Management has to consider different assumptions that may affect the value of stock options. The Company has no significant historic data and is in development stage. Accordingly, the Company has based its assumptions on industry data and other sources of available information.

#### **Financial Instruments**

The financial instruments issued by the Corporation are classified as liabilities if they include a contractual obligation for the Corporation to deliver cash at maturity. Interest and dividends are charged to income or shareholders' equity according to the balance sheet classification of the corresponding financial instrument.

The company has used different financial instruments since its inception. The evaluation of those financial instruments required assumptions established by management using careful judgment.

### **RISKS AND UNCERTAINTIES**

There are a number of risks and uncertainties the company is subject to due to the nature of its technology and its associated products and the company's current stage of development. They include, but are not necessarily limited to, the following:

*Vulnerability of exclusive technology* – the company owns the intellectual property behind its technology but there is the possibility of competitive imitation.



*Additional capital needs* – as per the original plan, the company has sufficient funds to carry out its business plan. In the event that these plans change or revenue growth is slower than anticipated, it is possible additional financing will be necessary. There is no guarantee this financing will be available at conditions that are acceptable to the company and with terms that facilitate its growth.

*Competition* – there is a risk that competitors will launch a technology that diminishes the potential of the company's technology or makes it obsolete.

*Managing growth and market development* – there is no guarantee the company will be able to successfully develop its market or, in the case of rapid growth, not successfully manage the requirements this type of growth demands.

*Demand fluctuation* – the company's success is based on the demand in the heavy equipment and attachment industry. If there is a general slowdown in the demand for these types of products, there will be an impact on the company's results.

*Price fluctuation* – given the competitive nature of the industry and the unknown reaction of competitors to the introduction of the company's products, there may be pressures for the company to reduce its prices which will affect its projected profitability.

*Importance of workforce* – the company relies heavily on its management team and technical personnel. The loss of one of these employees may have an unfavourable impact on the company.

*Acquisitions* – it is possible the company could acquire companies or products that complement its own and help it achieve its goals. There is a risk that the benefits of synergy are not realized or integration of the new company or product is not successful.

*Product anomalies and imperfections* – the products being developed by the company are complex and, as a result, may contain anomalies or weaknesses that may slow growth and harm its reputation.

### **Forward-looking information**

Certain sections of this management's discussion and analysis may contain forward-looking information. Statements based on current management expectations involve inherent risks and uncertainties, both known and unknown. Actual results may be different from forecasts.

Carol Murray  
President and Chief Executive Officer

Matthew Blackmore  
Chief Financial Officer

Blainville, Québec, December 7, 2005



## AUDITORS' REPORT

To the Shareholders of  
**Power Tech Corporation Inc.:**

We have audited the consolidated balance sheets of **Power Tech Corporation Inc.** as at September 30, 2005 and August 31, 2004 and the consolidated statements of loss, deficit and cash flows for the 395-day and 308-day periods 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 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 September 30, 2005 and August 31, 2004 and the results of its operations and its cash flows for the 395-day and 308-day periods then ended in accordance with Canadian generally accepted accounting principles.

*Ernst + Young LLP*

Chartered Accountants

Québec City, Canada  
November 3, 2005.



**Power Tech Corporation Inc.**  
**CONSOLIDATED BALANCE SHEETS**

*[note 2]*

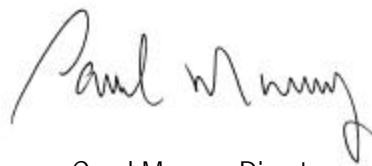
As at	September 30, 2005 \$	August 31, 2004 \$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	1,376,376	46,794
Accounts receivable <i>[note 4]</i>	203,811	23,373
Tax credits receivable	35,000	50,000
Inventories <i>[note 5]</i>	533,633	12,491
Prepaid expenses	17,173	3,499
	<b>2,165,993</b>	<b>136,157</b>
<b>Advances to a shareholder <i>[note 6]</i></b>	<b>19,508</b>	<b>19,508</b>
<b>Property, plant and equipment <i>[note 7]</i></b>	<b>59,631</b>	<b>30,852</b>
<b>Intangible assets <i>[note 8]</i></b>	<b>98,974</b>	<b>84,809</b>
<b>Deferred charges <i>[note 9]</i></b>	<b>186,567</b>	<b>122,977</b>
	<b>2,530,673</b>	<b>394,303</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	204,797	74,621
<b>Liability component of convertible debentures <i>[note 10]</i></b>	<b>1,398,820</b>	<b>607,966</b>
<b>Long-term debt <i>[note 11]</i></b>	<b>20,911</b>	<b>—</b>
<b>Shareholders' equity (deficiency)</b>		
Capital stock <i>[note 12]</i>	1,615,998	105
Warrants <i>[note 12]</i>	957,000	—
Stock options <i>[note 12]</i>	416,485	—
Equity component of convertible debentures <i>[note 10]</i>	113,659	75,710
Deficit	(2,196,997)	(364,099)
	<b>906,149</b>	<b>(288,284)</b>
	<b>2,530,673</b>	<b>394,303</b>

Commitments *[note 15]*

Subsequent event *[note 17]*

*The accompanying notes are an integral part of these consolidated financial statements*

On behalf of the Board



Carol Murray, Director



Dany Girard, Director



Power Tech Corporation Inc.

CONSOLIDATED STATEMENTS OF DEFICIT

For the periods ended

	September 30, 2005 [395 days] \$	August 31, 2004 [308 days] \$	Period from October 27, 2003 to September 30, 2005 [703 days] \$
Deficit, beginning of period	(364,099)	—	—
Net loss	(1,773,235)	(364,099)	(2,137,334)
Share and equity instrument issue costs	(54,843)	—	(54,843)
Premium on settlement of equity component of convertible debentures <i>[note 10 (a)]</i>	(4,820)	—	(4,820)
<b>Deficit, end of period</b>	<b>(2,196,997)</b>	<b>(364,099)</b>	<b>(2,196,997)</b>

*The accompanying notes are an integral part of these consolidated financial statements*



Power Tech Corporation Inc.

CONSOLIDATED STATEMENTS OF LOSS

For the periods ended

	September 30, 2005	August 31, 2004	Period from October 27, 2003 to September 30 2005
	[395 days]	[308 days]	[703 days]
	\$	\$	\$
<b>Expenses</b>			
Selling and administrative expenses [including government assistance of \$56,126 in 2005 and nil in 2004]	1,695,235	306,214	2,001,449
Financial expenses	58,467	28,746	87,213
Amortization of property, plant and equipment	22,176	2,499	24,675
Amortization of other assets			
Development costs	69,741	24,596	94,337
Patents	7,107	2,044	9,151
Financing costs	1,783	—	1,783
	<b>1,854,509</b>	<b>364,099</b>	<b>2,218,608</b>
<b>Other revenues</b>			
Interest	19,487	—	19,487
Contribution – Economic Development Canada [note 11]	26,637	—	26,637
Gain on settlement of liability component of convertible debentures [note 10 (a)]	35,150	—	35,150
	<b>81,274</b>	<b>—</b>	<b>81,274</b>
<b>Net loss</b>	<b>(1,773,235)</b>	<b>(364,099)</b>	<b>(2,137,334)</b>
<b>Basic and diluted loss per share outstanding</b>	<b>(0.08)</b>	<b>(0.02)</b>	<b>(0.10)</b>
<b>Weighted average number of shares outstanding during the period [in thousands]</b>	<b>23,598</b>	<b>17,750</b>	<b>21,036</b>

The accompanying notes are an integral part of these consolidated financial statements



Power Tech Corporation Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the periods ended

	September 30, 2005 [395 days] \$	August 31, 2004 [308 days] \$	Period from October 27, 2003 to September 30, 2005 [703 days] \$
<b>OPERATING ACTIVITIES</b>			
Net loss for the period	(1,773,235)	(364,099)	(2,137,334)
Adjustments for:			
Amortization of property, plant and equipment	22,176	2,499	24,675
Amortization of other assets	78,631	26,640	105,271
Accumulated interest on convertible debentures	55,834	28,676	84,510
Gain on settlement of liability component of convertible debentures	(35,150)	—	(35,150)
Accumulated interest on long- term debt	255	—	255
Stock-based compensation expense	331,485	—	331,485
	(1,320,004)	(306,284)	(1,626,288)
Net change in non-cash working capital items	(702,779)	(14,742)	(717,521)
<b>Cash flows used for operating activities</b>	(2,022,783)	(321,026)	(2,343,809)
<b>INVESTING ACTIVITIES</b>			
Advances to a shareholder	—	(19,508)	(19,508)
Additions to property, plant and equipment	(50,955)	(33,351)	(84,306)
Additions to intangible assets	(21,272)	(64,848)	(86,120)
Increase in deferred charges	(135,114)	(147,573)	(282,687)
Repayment of a loan to a shareholder	—	(22,000)	(22,000)
<b>Cash flows used for investing activities</b>	(207,341)	(287,280)	(494,621)



Power Tech Corporation Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS [Cont'd]

For the periods ended

	September 30, 2005 [395 days] \$	August 31, 2004 [308 days] \$	Period from October 27, 2003 to September 30, 2005 [703 days] \$
<b>FINANCING ACTIVITIES</b>			
Reverse takeover and merger <i>[note 1]</i>	540,594	—	540,594
Loan – CMJ Capital Inc.	250,000	—	250,000
Issuance of convertible debentures	1,500,000	655,000	2,155,000
Repayment of convertible debentures and accumulated interest	(696,701)	—	(696,701)
Increase in long-term debt	20,656	—	20,656
Issuance of category A common shares	—	100	100
Issuance of units	2,000,000	—	2,000,000
Equity instrument issue costs	(54,843)	—	(54,843)
<b>Cash flows provided by financing activities</b>	<b>3,559,706</b>	<b>655,100</b>	<b>4,214,809</b>
<b>Net increase in cash</b>	<b>1,329,582</b>	<b>46,794</b>	<b>1,376,376</b>
Cash, beginning of period	46,794	—	—
<b>Cash, end of period</b>	<b>1,376,376</b>	<b>46,794</b>	<b>1,376,376</b>

*The accompanying notes are an integral part of these consolidated financial statements*



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Power Tech Corporation Inc.

September 30, 2005 and August 31, 2004

### 1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

#### Company in Development Stage

Power Tech Corporation Inc. ("Power Tech" or the "Company") was incorporated under Part 1A of *the Companies' Act (Québec)* and specializes in developing, integrating and commercializing leading-edge technologies allowing substantial performance, productivity and functionality improvements in excavation equipment and systems for the general construction industry. As at September 30, 2005 the Company has not earned revenues and is considered to be in the development stage.

The Company's activities are focused on one project, the *PicBucket*. The Company owns all patents related to the technology used to develop this product.

The *PicBucket* is an excavation bucket integrated with a hydraulic cell that holds interchangeable tools to ensure maximum performance and functionality for specific applications. The product is functional and ready for market.

All assets of the Company are located in Canada.

#### Reverse Takeover and Merger

On February 11, 2005, CMJ Capital Inc. ("CMJ") acquired all the outstanding Class A shares of Power Tech in consideration for the issuance of 17,750,000 CMJ common shares on the basis of 169,047.6 CMJ common shares for each Class A common share of Power Tech. For accounting purposes, this transaction was a capital transaction in substance for Power Tech and resulted in the allocation by Power Tech of a value to the 5,000,000 shares issued to CMJ on February 11, 2005 equal to the value of CMJ's net assets amounting to \$572,893 at that date, net of the fair value allotted to the new stock options issued. Subsequent to this reverse takeover, the companies merged and the merged company continued under the name of Power Tech Corporation Inc. The new 400,000 stock options granted replaced the 400,000 stock options granted by CMJ following the merger. These options are exercisable at a price of \$0.25 until January 25, 2006 and were valued at \$85,000 at the acquisition date.



## 1. NATURE OF BUSINESS AND BASIS OF PRESENTATION [CONT'D]

### Reverse Takeover and Merger [Cont'd]

The fair value of the assets and liabilities acquired at the transaction date are outlined in the following table:

	\$
Current assets acquired [including cash totalling \$540,594]	796,944
Current liabilities assumed	139,051
Net assets acquired	657,893
Fair value allotted to 400,000 stock options	85,000
<b>Value allocated to the 5,000,000 shares issued in CMJ Capital Inc.</b>	<b>572,893</b>

These consolidated financial statements and the amounts reported for the periods prior to February 11, 2005 represent a continuity of operations of Power Tech. The number of shares of the Company issued prior to the reverse takeover has been retroactively restated to reflect the number of shares issued in the reverse takeover transaction. The computation of loss per share was also affected by this transaction for all periods presented.

## 2. GOING CONCERN CONCEPT

The financial statements were prepared by management in conformity with Canadian generally accepted accounting principles based on the going concern concept, which assumes the Company will be able to generate sufficient funds to discharge its obligations during normal business operations for the foreseeable future.

The Company incurred a net loss of \$1,773,235 during the current year [\$364,099 in 2004] and has an accumulated deficit of \$2,196,997 as at September 30, 2005 [\$364,099 in 2004]. The Company expects to have future capital requirements, especially for technology development, marketing initiatives and debenture and long-term debt servicing. The Company wishes to fund its future capital requirements mainly by way of available cash and cash flows from operations. The Company realized its first sales within the framework of its V.I.Pic marketing program on October 24, 2005. The Company's future ability to generate sufficient short-term and long-term capital depends on acquiring additional sales and financing and various factors, including general economic conditions, technological advancements, market acceptance of its products and competition.

At this point in time, the Company has begun the process of realizing a private or public financing. The completion date of this process is targeted for March 2006. However, the realization of these objectives is not assured at this time. These financial statements contain no restatement or reclassification of assets or liabilities that would be necessary if the Company demonstrated an inability to continue its operations.



### 3. SIGNIFICANT ACCOUNTING POLICIES

#### Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Power Tech Canada Inc.

#### Use of Estimates

In preparing these financial statements, management is required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. In management's opinion, the financial statements have been properly prepared using careful judgment within the reasonable limits of materiality and within the framework of the accounting policies summarized below.

#### Inventories

Raw materials are measured at the lower of cost, determined using the first-in, first-out method, and market value.

Finished goods are measured at the lower of cost and market value. The cost, determined using the first-in, first-out method, includes raw materials, direct labour and manufacturing overhead costs.

#### Property, Plant and Equipment

Property, plant and equipment is recorded at cost and amortized over its estimated useful life on a straight-line basis using the following periods:

Moulds	5 years
Machinery and equipment	5 years
Office furniture	1-3 years
Computer hardware	3 years
Computer software	3 years

#### Intangible Assets

Intangible assets consist of patents and are recorded at cost and amortized over their useful lives on a straight-line basis over periods ranging from 14 to 20 years.



### **3. SIGNIFICANT ACCOUNTING POLICIES [CONT'D]**

#### **Research and Development Costs**

Research costs are expensed in the year in which they are incurred.

Development costs are expensed in the year in which they are incurred, except for those that meet Canadian generally accepted accounting principle criteria for deferral, which are capitalized and amortized over a maximum three-year period.

Deferred development costs include four excavation buckets with percussion capabilities that serve as prototypes for the Company. Any proceeds generated from the sale of these units will be accounted for as a reduction of deferred development costs.

#### **Financing Expenses**

Equity instrument issue expenses are added to the deficit. Debt securities issue expenses are deferred and amortized over the term of the underlying debt using the effective interest rate method.

#### **Impairment of Long-Lived Assets**

Long-lived assets are reviewed for impairment when significant events or circumstances indicate that costs may not be recoverable. Impairment exists when the carrying value of the asset is greater than the undiscounted future cash flows expected to be provided by the asset. The amount of impairment loss, if any, which is the excess of net carrying value over fair value, is charged to income for the period.

#### **Government Assistance**

Government assistance related to additions to property, plant and equipment and deferred development costs is presented as a reduction of these costs and is amortized under the same rates used to calculate the amortization.

Government assistance related to current expenses is recorded as a reduction of these expenses in the period incurred.



### **3. SIGNIFICANT ACCOUNTING POLICIES [CONT'D]**

#### **Loss per Share**

Loss per share was calculated using the average number of outstanding common shares during the year.

Diluted loss per share was calculated using the average number of outstanding common shares during the year, plus the dilutive effect of issued stock options and stock warrants. Diluted loss per share should be calculated using the share repurchase method, presuming that all dilutive instruments are exercised at the beginning of the year or at their date of issuance, and these funds were used to purchase the common shares of the company at the average price of the common shares during the year. The share warrants and stock options mentioned in note 12 were not included in the diluted loss per share calculation because the company is in a loss position, and the inclusion of these instruments would be anti-dilutive.

#### **Stock-Based Compensation and Other Stock-Based Payments**

The Company offers a stock option plan, described in note 12. The Company recognizes a compensation expense in respect of the stock options granted under the plan that does not provide for a cash settlement. These options are measured at fair value using the Black-Scholes option pricing model at the grant date, and this fair value is expensed during the period from the grant date to the vesting date.

#### **Income Taxes**

The Company recognizes taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on the temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities. These future tax assets and liabilities are measured using tax rates that are expected to apply when such tax assets or liabilities are either realized or settled. A write-down allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

#### **Financial Instruments**

The financial instruments issued by the Company are classified as liabilities if they include a contractual obligation for the Company to deliver cash at maturity. Interest and dividends are charged to income or shareholders' equity according to the balance sheet classification of the corresponding financial instrument.



#### 4. ACCOUNTS RECEIVABLE

	September 30, 2005 \$	August 31, 2004 \$
Commodity taxes receivable	147,685	23,373
Government grant receivable (a)	56,126	—
	<b>203,811</b>	<b>23,373</b>

(a) The grant was obtained in connection with the "Programme d'aide aux entreprises – vitrine technologique". The grant covers 40% of the eligible project costs. This grant is subject to certain conditions that require the project to be completed before May 14, 2007.

#### 5. INVENTORIES

	September 30, 2005 \$	August 31, 2004 \$
Raw materials	29,770	12,49
Finished goods	503,863	—
	<b>533,633</b>	<b>12,49</b>

#### 6. ADVANCES TO A SHAREHOLDER

These advances are subject to a 5% interest rate and are repayable in \$200 monthly instalments beginning in January 2007. During the year, the date of first instalment was changed from January 2006 to January 2007.



## 7. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2005		August 31, 2004	
	Cost \$	Accumulated amortization \$	Cost \$	Accumulated amortization \$
Moulds	17,015	2,436	—	—
Machinery and Equipment	8,878	2,091	6,575	146
Office furniture	3,054	1,081	—	—
Computer hardware	43,618	13,767	16,556	1,130
Computer software	11,740	5,299	10,220	1,223
	<b>84,305</b>	<b>24,674</b>	<b>33,351</b>	<b>2,499</b>
Accumulated Amortization	24,674		2,499	
<b>Net book value</b>	<b>59,631</b>		<b>30,852</b>	

## 8. INTANGIBLE ASSETS

	September 30, 2005 \$	August 31, 2004 \$
Patents	108,126	86,853
Accumulated amortization	9,152	2,044
<b>Net book value</b>	<b>98,974</b>	<b>84,809</b>

During the year, the Company capitalized costs related to its patents amounting to \$21,273 [\$39,848 in 2004].

In addition, in 2004, the Company acquired two patents from a third party for a value of \$47,005 in consideration for \$25,000 in cash, the assumption of a loan to a shareholder of the Company amounting to \$22,000 and the issuance of 845,238 Category A common shares for an amount of \$5.



## 9. DEFERRED CHARGES

	September 30, 2005		August 31, 2004	
	Cost \$	Accumulated amortization \$	Cost \$	Accumulated amortization \$
Development costs [net of Research & Development tax credits of \$88,578 in 2005 and \$50,000 in 2004]	229,208	94,337	147,573	24,596
Financing Expenses	53,479	1,783	—	—
	282,687	96,120	147,573	24,596
Accumulated Amortization	96,120		24,596	
<b>Net book value</b>	<b>186,567</b>		<b>122,977</b>	

## 10. LIABILITY COMPONENT OF CONVERTIBLE DEBENTURES

	September 30, 2005 \$	August 31, 2004 \$
Debt component of convertible debentures	—	655,000
Equity component of convertible debentures	—	(75,710)
Accumulated interest	—	579,290
To carry forward	—	28,676
		607,966



## 10. LIABILITY COMPONENT OF CONVERTIBLE DEBENTURES [CONT'D]

	September 30, 2005 \$	August 31, 2004 \$
Carried forward	—	607,966
<p>Debenture, bearing interest at 12.95% compounded semi-annually, maturing on August 2, 2010. The interest from August 2, 2005 to August 2, 2007 is convertible into units of the Company. Interest from August 3, 2007 to August 2, 2009 and from August 3, 2009 to August 2, 2010 is payable in cash at the end of each period. The debenture is convertible as per the following terms and conditions:</p>		
<p>(i) At the option of the debenture holder at all times, in whole or in part, into units of the Company at a conversion price of \$0.70 until August 2, 2007. For all subsequent years, until August 2, 2010, the conversion price per unit will be increased by 10% per year over the conversion price of the previous year. Each unit includes one common share and one share warrant entitling the holder to subscribe, at the earliest date of either two years after issuance or August 2, 2010, to one common share at a price equal to the conversion price of the units at the time of the debenture's conversion.</p>		
<p>(ii) At the option of the Company on or after January 31, 2008 in whole or in part, if during at least 20 consecutive days, the closing price of the Company's common shares was \$2.00 or more and the debenture has not already been converted. [see note (b)]</p>		
	1,500,000	—
Equity component of convertible debentures	<del>(113,659)</del>	—
	1,386,341	—
Accumulated interest	12,479	—
	1,398,820	—
	1,398,820	607,966



## 10. LIABILITY COMPONENT OF CONVERTIBLE DEBENTURES [CONT'D]

- (a) The liability component was determined by calculating the capital amount plus accrued interest at a rate of 15% to the March 2006 expiry date, a rate chosen to reflect an appropriate interest rate for a company at this stage of its development and the risk that such an investment represents in a context where the financial instrument comprises no conversion privilege. The equity component was calculated simply as the difference.

On February 11, 2005, the Company repaid the convertible debentures out of the proceeds from the issuance of units as part of a private financing described in note 12.

The amount repaid totalled \$696,701 [\$655,000 in capital and \$41,701 in interest] was divided proportionally between the liability component of the convertible debentures and the equity component of the convertible debentures as per the original split.

This transaction resulted in a gain on the settlement of the liability component of the convertible debentures for \$35,150 presented in the Company's income statement as well as a premium on the settlement of the equity component of the convertible debentures of \$4,820 which is presented in the statement of deficit.

- (b) The liability component was determined by calculating the capital amount plus accrued interest at a rate of 18% to the August 2010 expiry date, a rate chosen to reflect an appropriate interest rate for a company at this stage of its development and the risk that such an investment represents in a context where the financial instrument comprises no conversion privilege. The equity component was calculated simply as the difference.





## 12. CAPITAL STOCK

**Authorized** [before the reverse takeover described in note 1]

Unlimited number of shares, without par value.

Category A common shares, voting and participating.

Category B common shares, voting and participating, convertible to Category E preferred shares at the shareholder's option.

Category C preferred shares, voting and non-participating, automatically redeemable upon the death of the shareholder at the paid-up amount.

Category D preferred shares, voting and non-participating, non-cumulative preferred dividend at the bank's prime rate less 1% per year, ranking prior to all other categories of shares and redeemable at the shareholder's option at the paid-up amount.

Category E preferred shares, non-voting and non-participating, non-cumulative preferred dividend at 1% per month, ranking prior to Category A, B, F, G, H and I shares and redeemable at the shareholder's option at the paid-up amount plus a premium.

Category F preferred shares, non-voting and non-participating, non-cumulative preferred dividend at 1% per month, ranking prior to Category A, B, G, H, and I shares and redeemable at the shareholder's option at the paid-up amount plus a premium.

Category G preferred shares, non-voting and non-participating, non-cumulative preferred dividend at prime the bank's rate plus 1% per year, ranking prior to Category A, B, H, and I shares, and redeemable at the shareholder's option at the paid-up amount plus a premium.

Category H preferred shares, non-voting and non-participating, non-cumulative preferred dividend at 8% per year, ranking prior to Category A, B, and I shares, and redeemable at the shareholder's option at the paid-up amount.

Category I preferred shares, non-voting and non-participating, non-cumulative preferred dividend at 8% per year, ranking prior to Category A and B shares, and redeemable at the Company's option at the paid-up amount.



## 12. CAPITAL STOCK [CONT'D]

**Authorized** [after the reverse takeover described in note 1]

Unlimited number of shares, without par value.

**Issued and fully paid**

	Class A		Common		Total	Warrants	
	Number	\$	Number	\$	\$	Number	\$
<b>Balance, beginning of the year</b>	—	—	—	—	—	—	—
Issuance for cash	16,904,762	100	—	—	100	—	—
Issuance in exchange for patents [note 8]	845,238	5	—	—	5	—	—
<b>Balance as at August 31, 2004</b>	17,750,000	105	—	—	105	—	—
Conversion on reverse takeover [note 1]	(17,750,000)	(105)	17,750,000	105	—	—	—
Shares issued to CMJ [note 1]	—	—	5,000,000	572,893	572,893	—	—
Issued for cash – private placement	—	—	5,000,000	1,043,000	1,043,000	5,000,000	957,000
<b>Balance as at September 30, 2005</b>	—	—	27,750,000	1,615,998	1,615,998	5,000,000	957,000

### 2005

On February 11, 2005, the Company issued 5,000,000 units [each unit including one share and one warrant] for gross proceeds of \$2,000,000, of which \$1,043,000 was allocated to shares and \$957,000 to the warrants attached to each unit. The warrants entitle holders to subscribe, at any time within the 24 months following the closing date, to a common share at a price of \$0.60.

### 2004

During the year, the Company issued 16,904,762 Category A common shares for a cash consideration of \$100.

In addition, the Company issued 845,238 Category A common shares for a partial consideration of patents. These shares were valued at \$5 [note 8].



## 12. CAPITAL STOCK [CONT'D]

### Stock options

On October 27, 2004, the Company approved a new stock option plan for employees, officers, directors, consultants and suppliers of the Company. Under this plan, a total of 2,462,500 options may be granted to participants, excluding the 400,000 stock options referred to in note 1. No option shall be granted for a period exceeding five years and the exercise price shall be at least equal to the market price of the underlying shares at the grant date. The rights in respect of these options vest according to the terms determined by the Board of Directors and are usually conditional upon the maintenance of a business relationship with the Company.

Under this plan, the Company granted 1,704,000 options to employees, officers, consultants and directors of the Company. These options have been measured at an aggregate value of \$537,460. Compensation cost is amortized using the graded vesting method and a compensation cost of \$331,485 has been charged to the 2005 year's results.

	Number of options	Value \$	Weighted average exercise price \$
Outstanding as at August 31, 2004	—	—	—
Reverse takeover <i>[note 1]</i>	400,000	85,000	0.25
Granted under the plan	1,704,000	331,485	0.50
Outstanding as at September 30, 2005	2,104,000	416,485	0.45
<b>Exercisable options, end of year</b>	<b>1,250,000</b>		<b>0.42</b>

The remaining weighted average contractual lives of the options with exercise prices of \$0.25 and \$0.50 are 0.6 years and 3.21 years, respectively.

The fair value of the options granted and the warrants was estimated on the grant date using the Black-Scholes option pricing method based on the following assumptions:

	2005
Expected dividend yield	None
Expected volatility	100%
Risk-free interest rate	2.94%–3.54%
Expected life in years	2–4



### 13. INCOME TAXES

The income tax reported differs from the amount of the tax computed by applying statutory income tax rates to the loss before taxes. The reasons for the differences and the related tax effects are as follows:

	2005 %	2004 %
Statutory combined provincial and federal tax rate	31.12	31.72
Decrease in taxes recoverable from:		
Tax reduction based on loss from operations	(31.12)	(31.72)
	—	—

Tax effects of temporary differences resulting in future tax assets and liabilities are presented below:

	2005 \$	2004 \$
<b>Future tax assets</b>		
Net losses from operations carry forward	472,000	106,000
Non-deducted research and development expenses	73,000	22,000
Excess of tax basis of financing expenses over their carrying value	36,000	—
	581,000	128,000
Provision for write-down	(529,300)	(118,500)
Net future tax assets	51,700	9,500
<b>Future tax liabilities</b>		
Research and development tax credits subsequently taxable	2,400	9,500
Excess of carrying value of property, plant and equipment over their tax basis	7,300	—
Excess of carrying value of deferred development costs over tax basis	42,000	—
Future tax liabilities	51,700	9,500
Net future income taxes	—	—



### 13. INCOME TAXES [CONT'D]

The amount of losses that the Company can carry forward for income tax purposes as well as the expiry date in which these losses can be used is outlined as follows:

Year of loss	Amount		Expiration year
	Federal \$	Provincial \$	
2005	169,000	166,000	2013
2005	1,481,000	1,462,000	2012
2004	438,000	385,300	2011

The Company has available a balance of non-deducted research and development costs that could be used to reduce taxable income in future years of \$206,000 for federal purposes and \$302,000 for provincial purposes.

The operating losses carried forward and the balance of non-deducted research and development cost are accounted for as a future income taxes asset before the provision for write-down.

Finally, the Company has a \$39,000 investment tax credit that can be used to reduce federal taxes payable until 2015. This credit has not been accounted for in the balance sheet.

### 14. RELATED PARTY TRANSACTIONS

	2005 [395 days] \$	2004 [308 days] \$	Period from October 27, 2003 to September 30, 2005 [703 days] \$
<b>Company under common control</b>			
Development costs	11,500	18,480	29,980
Sales and administration expenses	—	4,440	4,440
Additions to property, plant and equipment	1,000	—	1,000

These transactions were in the normal course of business and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.



## 15. COMMITMENTS

### (a) Leases

In addition to the commitments described elsewhere in these financial statements, the Company has signed a lease for its permanent place of business as well as some items of property, plant and equipment. The lease was signed with a Company controlled by shareholders of the Company for a total of \$3,028,600 expiring in 2020. These leases have expiry dates ranging from 2009 to 2020, and commit the Company to payments totalling \$3,065,700. The minimum lease payments for the next five years are as follows:

	\$
2006	146,950
2007	242,000
2008	237,200
2009	229,200
2010	218,300

### (b) Guarantee

The Company has guaranteed, to a maximum of 25%, a mortgage loan totalling \$1,200,000. This loan was contracted by a company controlled by shareholders of the Company.



## **16. FINANCIAL INSTRUMENTS**

### **(a) Fair Value**

For certain financial instruments of the Company including cash, advances to a shareholder and accounts payable, the carrying amounts approximate fair value due to their short-term maturity or to the fact they bear interest at current market rates.

The debentures and long-term debt are accounted for at fair value.

### **(b) Financial Risk**

Financial risk is the risk to which the Company's income is exposed, which arises from the degree of volatility of interest rates. The Company does not use any derivative financial instruments to reduce its exposure to interest rate risk.

## **17. SUBSEQUENT EVENT**

On October 5, 2005, the Company issued 280,000 common shares for a cash consideration of \$70,000 to exercise 280,000 stock options at a price of \$0.25 per share.



## INFORMATION FOR SHAREHOLDERS

### **Annual Meeting**

The annual shareholders meeting will be held on **Wednesday, February 8, 2005** at 10:00AM at The Fairmont Queen Elizabeth Hotel at 900 René-Lévesque Boulevard West in Montréal.

### **Stock Market Listing**

TSX Venture Exchange: PWB

### **Common Shares**

Outstanding shares as of September 30, 2005 : 27,750,000

### **Website**

For more information on the company, its technology and management team please visit:

*[www.powertechci.com](http://www.powertechci.com)*

### **Transfer Agent**

CIBC Mellon

2001 University Street, Suite 1600, Montreal, Quebec, H3A 2A6

Telephone: (514) 285-3600

### **Auditors**

Ernst & Young LLP

150 René-Levesque Boulevard East, Québec, Québec, G1R 6C6

### **Executive Office (until March, 2006)**

1060 Michèle-Bohec Boulevard, Suite 106B, Blainville, Québec, J7C 5E2

### **Executive Office (as of March, 2006)**

480 Fernand-Poitras Street, Terrebonne, Québec, J6Y 1Y4



## BOARD OF DIRECTORS

**Carol Murray**, President and Chief Executive Officer, PowerTech  
Director

**André Gaumond**, President and Chief Executive Officer, Virginia Gold Mines Inc.  
Director and Member of Audit Committee

**Dany Girard, FCGA**, General Manager, Desjardins, Caisse d'Arvida-Kénogami  
Director and President of Audit Committee

**Mario Jacob**, President, Maximus Capital Inc.  
Director and Corporate Secretary

**Richard Hélie**, Vice-President – Sales and Marketing, PowerTech  
Director and Member of Audit Committee

## EXECUTIVE MANAGEMENT TEAM

**Carol Murray**  
President and Chief Executive Officer

**Matthew Blackmore**  
Chief Financial Officer

**Richard Hélie**  
Vice-President – Sales and Marketing

**Pierre Gagnon**  
Vice-President – Operations