

Interim Consolidated Financial Statements

**Power Tech Corporation Inc.**

June 30, 2006

## **MANAGEMENT'S NOTICE**

The accompanying unaudited interim consolidated financial statements have not been reviewed by the Corporation's external auditors.

**Power Tech Corporation Inc.**

**CONSOLIDATED BALANCE SHEET**

As at

	June 30, 2006 \$	September 30, 2005 \$
	[unaudited]	
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	582,422	1,376,376
Accounts receivable	381,646	203,811
Tax credits receivable	—	35,000
Inventories	977,803	533,633
Prepaid expenses	36,051	17,173
	1,977,922	
	2,165,993	
<b>Advances to a shareholder</b>	19,508	19,508
<b>Property, plant and equipment [note 4]</b>	258,821	59,631
<b>Intangible assets</b>	97,876	98,974
<b>Deferred charges</b>	271,714	186,567
	2,625,841	2,530,673
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	277,894	204,797
Note payable [note 5]	401,381	—
Short term component of long-term debt [note 7]	7,038	—
	686,313	204,797
<b>Liability component of convertible debentures [note 6]</b>	1,525,871	1,398,820
<b>Long-term debt [note 7]</b>	43,281	20,911
<b>Shareholders' equity</b>		
Capital stock [note 8]	2,602,393	1,615,998
Warrants	1,147,072	957,000
Stock options	395,904	416,485
Contributed Surplus	5,028	—
Equity component of convertible debentures [note 6]	113,659	113,659
Deficit	(3,893,680)	(2,196,997)
	370,376	906,145
	2,625,841	2,530,673

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

On behalf of the Board

Carol Murray (s)  
Director

Dany Girard (s)  
Director

**Power Tech Corporation Inc.**

**CONSOLIDATED STATEMENT OF DEFICIT**

For the period ended

Unaudited

	<u>June 30,</u>		<u>June 30,</u>		<b>Period from October 27, 2003 to June 30, 2006</b>
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	
	[Three months] \$	[Three months] \$	[Nine months] \$	[Ten months] \$	
<b>Deficit, beginning of period</b>	<b>(3,244,705)</b>	(1,292,517)	<b>(2,196,997)</b>	(364,099)	—
Net loss	<b>(496,819)</b>	(511,356)	<b>(1,544,527)</b>	(1,391,524)	(3,681,861)
Share and equity instrument issue costs	<b>(152,156)</b>	—	<b>(152,156)</b>	(43,430)	(206,999)
Premium on settlement of equity component of convertible debentures	—	—	—	(4,820)	(4,820)
<b>Deficit, end of period</b>	<b>(3,893,680)</b>	(1,803,873)	<b>(3,893,680)</b>	(1,803,873)	(3,893,680)

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**Power Tech Corporation Inc.**

**CONSOLIDATED STATEMENT OF LOSS**

For the period ended	June 30,		June 30,		Unaudited Period from October 27, 2003 to June 30, 2006 \$
	2006	2005	2006	2005	
	[Three months]	[Three months]	[Nine months]	[Ten months]	
	\$	\$	\$	\$	
Sales	231,477	—	370,937	—	370,937
Cost of goods sold	160,177	—	261,846	—	261,846
Gross margin	71,300	—	109,091	—	109,091
<b>Expenses</b>					
Selling and administrative expenses	440,607	487,265	1,352,267	1,307,659	3,353,716
Financial expenses	50,450	403	152,276	45,418	239,489
Amortization of property, plant and equipment	21,483	5,725	43,364	15,309	68,039
Amortization of other assets					
Development costs	58,281	25,604	117,040	67,000	211,377
Patents	1,855	1,626	5,493	5,324	14,644
Financing costs	2,674	—	8,022	—	9,805
	575,350	520,623	1,678,462	1,440,710	3,897,070
Operating loss	(504,050)	(520,623)	(1,569,371)	(1,440,710)	(3,787,979)
<b>Other revenues</b>					
Interest	2,419	9,267	18,428	14,036	37,915
Rental Revenue	4,812	—	6,416	—	6,416
Contribution – Economic Development Canada	—	—	—	—	26,637
Gain on settlement of liability component of convertible debentures	—	—	—	35,150	35,150
	7,231	9,267	24,844	49,186	106,118
<b>Net loss</b>	<b>(496,819)</b>	<b>(511,356)</b>	<b>(1,544,527)</b>	<b>(1,391,524)</b>	<b>(3,681,861)</b>
<b>Basic and diluted loss per share outstanding</b>					
	(0.02)	(0.02)	(0.06)	(0.06)	(0.16)
<b>Weighted average number of shares outstanding during the period [in thousands]</b>					
	28,445	27,750	28,072	22,340	23,038

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**Power Tech Corporation Inc.**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the period

Unaudited

	June 30,		June 30,		Period from October 27, 2003 to June 30, 2006
	2006	2005	2006	2005	
	[Three months] \$	[Three months] \$	[Nine months] \$	[Ten months] \$	
<b>OPERATING ACTIVITIES</b>					
Net loss for the period	(496,819)	(511,356)	(1,544,527)	(1,391,524)	(3,681,861)
Adjustments for:					
Amortization of property, plant and equipment	21,483	5,725	43,364	15,309	68,039
Amortization of other assets	62,810	27,230	130,555	72,324	235,826
Accrued interest on convertible debentures	31,727	—	127,051	43,355	211,561
Accrued interest on long term debt and note payable	2,489	—	4,704	—	4,959
Gain on settlement of liability component of convertible debentures	—	—	—	(35,150)	(35,150)
Stock-based compensation expense	60,772	55,644	136,994	282,100	468,479
	(317,538)	(422,757)	(1,101,859)	(1,013,586)	(2,728,147)
Net change in non-cash working capital items	(460,746)	(60,959)	(486,882)	(384,569)	(1,250,307)
<b>Cash flows used for operating activities</b>	<b>(778,284)</b>	<b>(483,716)</b>	<b>(1,588,741)</b>	<b>(1,398,155)</b>	<b>(3,978,454)</b>
<b>INVESTING ACTIVITIES</b>					
Advances to a shareholder	—	—	—	—	(19,508)
Additions to property, plant and equipment	(46,573)	(25,586)	(273,074)	(43,305)	(326,860)
Additions to intangible assets	(3,951)	—	(4,395)	(4,008)	(90,515)
Increase in deferred charges	(83,979)	(36,314)	(225,593)	(143,483)	(492,896)
Repayment of a loan to a shareholder	—	—	—	—	(22,000)
<b>Cash flows used for investing activities</b>	<b>(134,503)</b>	<b>(61,900)</b>	<b>(503,062)</b>	<b>(190,796)</b>	<b>(951,779)</b>

**Power Tech Corporation Inc.**

**CONSOLIDATED STATEMENT OF CASH FLOWS [Cont'd]**

For the three month period ended

Unaudited

	June 30,		June 30,		Period from October 27, 2003 to June 30, 2006
	2006	2005	2006	2005	
	[Three months] \$	[Three months] \$	[Nine months] \$	[Ten months] \$	
<b>FINANCING ACTIVITIES</b>					
Reverse takeover and merger	—	—	—	540,594	540,594
Loan – CMJ Capital Inc.	—	—	—	250,000	250,000
Issuance of convertible debentures	—	—	—	—	2,155,000
Repayment of convertible debentures and accumulated interest	—	—	—	(696,701)	(696,701)
Increase in long-term debt	<b>400,00</b>	—	<b>429,94</b>	—	450,598
Reimbursement of long-term debt	<b>(1,64)</b>	—	<b>(3,85)</b>	—	(3,857)
Issuance of category A common shares	—	—	—	—	100
Issuance of units	<b>760,12</b>	—	<b>760,12</b>	2,000,000	2,760,120
Issuance of common shares	<b>137,80</b>	—	<b>237,80</b>	—	237,800
Equity instrument issue costs	<b>(126,15)</b>	—	<b>(126,15)</b>	(43,430)	(180,999)
<b>Cash flows provided by financing activities</b>	<b>1,17</b>	—	<b>1,29</b>	2,050,463	5,512,655
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>257,33</b>	(545,616)	<b>(793,95)</b>	461,512	582,422
Cash and cash equivalents, beginning of period	<b>325,09</b>	1,053,922	<b>1,37</b>	46,794	—
<b>Cash and cash equivalents, end of period</b>	<b>582,42</b>	508,306	<b>582,42</b>	508,306	582,422

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

**Power Tech Corporation Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

June 30, 2006

Unaudited

**1. PRESENTATION OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying consolidated financial statements are in accordance with Canadian generally accepted accounting principles applicable to interim financial statements and do not include all of the disclosures required for annual financial statements. They are also consistent with the accounting policies set forth in the Company's audited financial statements for the year ended September 30, 2005. The interim consolidated financial statements and accompanying notes should be read in conjunction with the Company's audited consolidated financial statements for the year ended September 30, 2005. Where required, the financial statements include amounts based on informed estimates and best judgements of management. The operating results for the interim period reported are not necessarily indicative of results to be expected for the year.

**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 \$496,819 during the three month period ended June 30, 2006 and has an accumulated deficit of \$3,893,680 as at June 30, 2006. 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 has realized a significant increase in sales during the three month period ended June 30, 2006 compared to prior periods. 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.

On May 9, 2006 the Company announced that Wellington West Capital Markets Inc. and Northern Securities Inc. have agreed to act as Agents on a private placement financing for a minimum of \$3.5M to a maximum of \$5.0M. On June 15, 2006 the terms of the financing were adjusted and the requirement for a minimum amount of the financing was eliminated. On June 22, 2006, an initial amount of \$760,120 was completed in the private placement financing. [note 8]. It is expected this financing will be completed by the end of August, 2006.

**Power Tech Corporation Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

June 30, 2006

Unaudited

**2. GOING CONCERN CONCEPT [CONT'D]**

In addition, the Company issued a note payable at an amount of \$400,000. *[note 5]*

These financings provide the Company the opportunity to attain its commercial objectives and discharge its obligations for a minimum of twelve months. 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**

**Development Stage Company**

As at June 30, 2006, the Company has not earned significant revenues and is considered to be in the development stage.

**Revenue Recognition**

All revenues earned to date are from the sale of the Company's primary product, the PicBucket, and its accessories. Operating revenues from these sales are recognized when the following criteria are met: purchase agreement is received from the customer, delivery has occurred, the price is fixed and collection is reasonably assured.

**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
Automotive equipment	3 years
Leasehold improvements	5 years

**Power Tech Corporation Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

June 30, 2006

Unaudited

**4. PROPERTY, PLANT AND EQUIPMENT**

	<u>June 30, 2006</u>		<u>September 30, 2005</u>	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$	\$	\$
Moulds	19,195	5,170	17,015	2,436
Machinery and equipment	28,800	4,937	8,878	2,091
Office furniture	134,398	13,468	3,054	1,081
Computer hardware	49,444	24,966	43,618	13,767
Computer software	12,744	8,485	11,740	5,299
Automotive equipment	30,131	6,696	—	—
Leasehold improvements	52,147	4,316	—	—
	<u>326,859</u>	<u>68,038</u>	84,305	24,674
Accumulated amortization	68,038		24,674	
<b>Net book value</b>	<u>258,821</u>		59,631	

**5. NOTE PAYABLE**

	<u>June 30, 2006</u>	<u>September 30, 2005</u>
	\$	\$
Note payable with an initial value of \$400 000, 14%, repayable in full at maturing date on November 30, 2006.	<u>401,381</u>	—

**Power Tech Corporation Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

June 30, 2006

Unaudited

**6. LIABILITY COMPONENT OF CONVERTIBLE DEBENTURES**

	<b>June 30, 2006</b>	<b>September 30, 2005</b>
	\$	\$
<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>		
(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.		
(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.	<b>1,500,000</b>	1,500,000
<u>Equity component of convertible debentures</u>	<u><b>(113,659)</b></u>	<u>(113,659)</u>
	<b>1,386,341</b>	1,386,341
<u>Accumulated interest</u>	<u><b>139,530</b></u>	<u>12,479</u>
	<b>1,525,871</b>	1,398,820

**Power Tech Corporation Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

June 30, 2006

Unaudited

**7. LONG TERM DEBT**

	<b>June 30, 2006</b>	<b>September 30, 2005</b>
	\$	\$
<hr/>		
Non-interesting contribution payable, Economic Development Canada, repayable in ten semi-annual principal instalments of \$9,750 starting in June 2008 and ending January 2013.		
A maximum contribution of \$97,500 has been authorized. As at March 31, 2006 the Company had received amounts totalling \$47,293.		
This contribution was discounted using a rate of 18%, considering the market rate for a similar financial instrument.	<b>47,293</b>	47,293
Amount recorded under other revenues	<b>(26,637)</b>	(26,637)
Accumulated interest	<b>3,578</b>	255
	<b>24,234</b>	20,911
Term loan, with an interest rate of 6.45%, repayable in monthly instalments of \$709 in principal and interest, maturing in November 2009. Automotive equipment with a net book value of \$25,946 has been pledged as security.	<b>26,085</b>	—
	<b>50,319</b>	20,911
Short term component of long-term debt	<b>7,038</b>	—
	<b>43,281</b>	20,911

The minimum principal payments over the next five years are outlined as follows:

	\$
2006	5,619
2007	7,153
2008	12,357
2009	17,594
2010	10,863

**Power Tech Corporation Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

June 30, 2006

Unaudited

**8. CAPITAL STOCK**

**Issuance of shares**

During the quarter, the Company realized the following transactions:

- Issuance of 140,000 common shares for a cash consideration of \$70,000 following the exercise of 140,000 stock options at a price of \$0.50 per share.
- Issuance of 83,000 common shares for a cash consideration of \$49,800 following the exercise of 83,000 warrants at a price of \$0.60 per share.

**Stock Options**

During the quarter, the Company granted 219,500 stock options under the stock option plan. These options were valued at \$100,906.

**Private placement**

On June 22, 2006, the Corporation issued 1,266,866 units (each unit consisting of a share and a half-warrant) for gross proceeds of \$760,120, comprising \$574,420 for the shares and \$185,700 for the warrants attached to each unit. The subscription warrants entitle the holders, at any time during the 24-month period after the closing date, to subscribe to a common share at a price of \$0.80. As part of this transaction, the Corporation issued 88,681 warrants to the agents as compensation. These options were accounted for as share issue expenses in the amount of \$26,000. Each warrant entitles the agent, at any time during the 24-month period after the closing date, to subscribe to a common share at \$0.80 per share. Warrants were valued using the Black-Scholes model.