

Interim Consolidated Financial Statements

**Power Tech Corporation Inc.**

December 31, 2006

**Power Tech Corporation Inc.**

**CONSOLIDATED BALANCE SHEETS**

As at

	December 31, 2006 [unaudited] \$	September 30, 2006 \$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	586,993	1,278,686
Accounts receivable	103,577	263,083
Tax credits receivable	50,000	50,000
Inventories	1,160,592	1,109,766
Prepaid expenses	152,860	61,976
	<b>2,054,022</b>	<b>2,763,511</b>
<b>Advances to a shareholder</b>	<b>19,508</b>	<b>19,508</b>
<b>Property, plant and equipment</b>	<b>253,025</b>	<b>244,918</b>
<b>Intangible assets</b>	<b>95,712</b>	<b>96,004</b>
<b>Deferred charges</b>	<b>254,853</b>	<b>293,961</b>
	<b>2,677,120</b>	<b>3,417,902</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities		
Company controlled by a shareholder and director	11,395	—
Other	275,236	393,291
Short term component of long-term debt	436,418	7,153
	<b>723,049</b>	<b>400,444</b>
<b>Liability component of convertible debentures</b>	<b>2,451,254</b>	<b>2,382,156</b>
<b>Long-term debt</b>	<b>60,531</b>	<b>475,569</b>
<b>Shareholders' equity (deficiency)</b>		
Capital stock	2,826,483	2,826,483
Warrants	1,200,749	1,200,749
Contributed surplus [note 4]	511,966	445,093
Equity component of convertible debentures	289,102	289,102
Deficit	(5,386,014)	(4,601,694)
	<b>(557,714)</b>	<b>159,733</b>
	<b>2,677,120</b>	<b>3,417,902</b>

Subsequent event [note 7]

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

On behalf of the Board

*Carol Murray (s)*  
Director

*Dany Girard (s)*  
Director

**Power Tech Corporation Inc.**

**CONSOLIDATED STATEMENTS OF DEFICIT**

For the three month period ended December 31,

	<b>2006</b>	<b>2005</b>
	\$	\$
<b>Deficit, beginning of period</b>	<b>(4,601,694)</b>	(2,196,997)
Net loss	<b>(784,320)</b>	(393,707)
<b>Deficit, end of period</b>	<b>(5,386,014)</b>	(2,590,704)

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**Power Tech Corporation Inc.**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND  
COMPREHENSIVE LOSS**

For the three month period ended December 31

	<b>2006</b>	<b>2005</b>
	\$	\$
Sales	<b>35,938</b>	99,960
Cost of goods sold [note 5]	<b>28,679</b>	79,448
Gross margin	<b>7,259</b>	20,512
<b>Expenses</b>		
Administration expenses	<b>282,683</b>	201,790
Selling and commercialization expenses	<b>298,517</b>	140,547
Interest expenses	<b>86,570</b>	57,357
Amortization of property, plant and equipment	<b>21,275</b>	8,380
Amortization of other assets		
Development costs	<b>106,549</b>	11,215
Patents	<b>1,879</b>	1,818
Financing costs	<b>3,832</b>	2,674
	<b>801,305</b>	423,781
Operating loss	<b>(794,046)</b>	(403,269)
<b>Other revenues</b>		
Interest	<b>4,913</b>	9,562
Rental	<b>4,813</b>	—
	<b>9,726</b>	9,562
<b>Net and comprehensive loss</b>	<b>(784,320)</b>	(393,707)
<b>Basic and diluted loss per share</b>	<b>(0.03)</b>	(0.01)
<b>Weighted average number of shares outstanding during the period [in thousands]</b>	<b>30,120</b>	28,009

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

**Power Tech Corporation Inc.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the three month period ended December 31

	<b>2006</b>	<b>2005</b>
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss	(784,320)	(393,707)
Adjustments for:		
Amortization of property, plant and equipment	21,275	8,380
Amortization of other assets	112,260	15,707
Accrued interest on convertible debentures	69,098	55,629
Accrued interest on long term debt	15,972	1,108
Stock-based compensation expense	66,873	38,473
	(498,842)	(274,410)
Net change in non-cash working capital items	(88,864)	(21,781)
<b>Cash flows used for operating activities</b>	<b>(587,706)</b>	<b>(296,191)</b>
<b>INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	(29,382)	(33,207)
Additions to intangible assets	(1,587)	(444)
Increase in deferred charges	(71,273)	(49,532)
<b>Cash flows used for investing activities</b>	<b>(102,242)</b>	<b>(83,183)</b>
<b>FINANCING ACTIVITIES</b>		
Increase in long-term debt	—	29,942
Reimbursement of long-term debt	(1,745)	(548)
Issuance of common shares	—	70,000
<b>Cash flows provided by financing activities</b>	<b>(1,745)</b>	<b>99,394</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(691,693)</b>	<b>(279,980)</b>
Cash and cash equivalents, beginning of period	1,278,686	1,376,376
<b>Cash and cash equivalents, end of period</b>	<b>586,993</b>	<b>1,096,396</b>

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

**Power Tech Corporation Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 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, 2006. 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, 2006. When 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 \$784,320 during the three month period ended December 31, 2006 and has an accumulated deficit of \$5,386,014 as at December 31, 2006. The Company expects to have future capital requirements, specifically for technology development, marketing initiatives, debenture and long-term debt servicing and to service its obligations in the normal course of business. The Company wishes to fund its future capital requirements through additional financing and cash flows from operations. The Company's future ability to generate sufficient short-term and long-term capital depends on their ability to raise capital to finance its operations and also on various factors, including general economic conditions, technological advancements, market acceptance of its products and competition.

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.

**Power Tech Corporation Inc.**

**NOTES TO CONSOLIDATED  
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December 31, 2006

Unaudited

**3. CHANGES IN ACCOUNTING POLICIES**

**Financial instruments, hedges and comprehensive income**

On October 1, 2006, the Company adopted new accounting standards of section 3855 – Financial instruments, 3865 – Hedges and 1530 – Comprehensive income issued by the Canadian Institute of Chartered Accountants. These new CICA standards require the Company to account for those financial instruments at fair market value and to determine their appropriate classification. Management’s decisions will impact any succeeding measurement of all financial instruments recorded on the balance sheet.

In addition, comprehensive income introduces a new financial statement which shows the change in equity of an enterprise from transactions and other events and circumstances from non-owner sources.

The Company has implemented the following classification:

- Cash and cash equivalents are classified as “Financial Assets Held for Trading”. These financial assets are marked-to-market through net income at each period end.
- Accounts receivable and advances to a shareholder are classified as “Loans and Receivables”. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.
- Accounts payable, liability component of convertible debentures and long-term debt are classified as “Other Financial Liabilities”. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.

The adoption of the recommendations has no effect on the Company’s financial statements.

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2006

Unaudited

**4. CONTRIBUTED SURPLUS**

	December 31, 2006 \$	September 30, 2006 \$
<b>Balance, beginning of period</b>	<b>445,093</b>	416,485
Stock-based compensation expense	<b>66,873</b>	181,155
Stock options exercised	—	(152,547)
<b>Balance, end of period</b>	<b>511,966</b>	445,093

**Stock options**

During the quarter, the Company granted 115,000 stock options under the stock option plan. These options were valued at an amount of \$37,616.

	December 31, 2006		September 30, 2006	
	Options	Weighted- average exercise price \$	Options	Weighted- average exercise price \$
<b>Outstanding, beginning of period</b>	<b>1,704,550</b>	<b>0.56</b>	2,106,500	0.47
Granted under the plan	<b>115,000</b>	<b>0.55</b>	330,050	0.72
Exercised	—	—	(540,000)	0.31
Cancelled	—	—	(192,000)	0.52
<b>Outstanding, end of period</b>	<b>1,819,550</b>	<b>0.56</b>	1,704,550	0.56
<b>Exercisable options, end of period</b>	<b>1,160,901</b>	<b>0.56</b>	1,051,851	0.56

**Power Tech Corporation Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2006

Unaudited

**4. CONTRIBUTED SURPLUS [Cont'd]**

**Stock options [Cont'd]**

Date of grant	Maturity date	Exercise price \$	December 31, 2006	
			Outstanding options	Options exercisable
February 11, 2005	February 11, 2010	0.50	1,275,000	748,001
May 2, 2005	May 2, 2010	0.85	2,500	1,500
September 15, 2005	September 15, 2010	0.72	94,500	28,350
November 7, 2005	November 7, 2010	0.72	15,000	3,000
March 15, 2006	March 15, 2011	0.72	32,500	—
April 5, 2006	April 5, 2011	0.76	214,500	214,500
June 23, 2006	June 23, 2011	0.65	5,000	—
August 25, 2006	August 25, 2011	0.60	65,550	65,550
October 15, 2006	October 15, 2011	0.71	15,000	—
December 5, 2006	December 5, 2011	0.53	100,000	100,000
			<b>1,819,550</b>	<b>1,160,901</b>

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:

	December 31, 2006	September 30, 2006
Expected dividend yield	None	None
Expected volatility	90%	90%-100%
Risk-free interest rate	3.79%-4.02%	3.70-4.49%
Expected life in years	2-4	2-4

**Power Tech Corporation Inc.**

**NOTES TO CONSOLIDATED  
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Unaudited

**5. COST OF GOODS SOLD**

	<b>2006</b>	<b>2005</b>
	\$	\$
Direct Costs	<b>21,041</b>	71,588
Indirect Costs	<b>7,638</b>	7,860
	<b>28,679</b>	79,448

**6. RELATED PARTY TRANSACTIONS**

	<b>2006</b>	<b>2005</b>
	\$	\$
<b>Companies controlled by shareholders and directors</b>		
Professional Fees	<b>15,000</b>	15,000
Rent	<b>58,695</b>	—

**7. SUBSEQUENT EVENT**

On February 7, 2007, the Company amended its stock option plan to increase the number of stock options from 2,462,500 to 3,011,986 that can be granted under the plan.