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LETTER TO SHAREHOLDERS

PROGRESS ON SEVERAL FRONTS

The year 2006 has enabled PowerTech to prepare the groundwork for its future growth through several significant milestone achievements. In particular, the Company has formed a number of strategic alliances with first-rate partners in order to set up a major distribution network that now extends across Canada, some regions of the United States and even parts of Europe. We have also intensified our other business development activities via our V.I.PIC trial program and by approaching many companies and potential clients. To date, PowerTech has directly solicited over 700 companies and municipalities in Canada and the United States. The V.I.PIC program offers selected entrepreneurs the opportunity to put the PicBucket or the PicHammer to the test for a fixed period of time and then purchase these products at a preferential price afterwards.

Parallel to these efforts aimed at supporting our commercial expansion, we have pursued our technological development plan to expand our product line and meet the significant needs of our target markets. In 2006, PowerTech also made its first sales, completed two private financings and moved its manufacturing activities into new modern, state-of-the-art facilities. With these solid foundations in place, PowerTech is set to accelerate its growth in the coming quarters.

Multiple strategic alliances

During the year, we will continue to improve our positioning in these different areas, in particular by concluding more distribution agreements with strategic partners and by launching new, innovative products that target high-growth markets.

Today, PowerTech is a company that is backed by several world-class industry partners. These strategic alliances, concluded during 2006, will give PowerTech access to major markets in Canada, the United States and Europe.

Last October, for instance, we announced the signing of two distribution agreements with the companies Toromont Industries Ltd. and Thiessen Equipment Ltd. The agreement with Toromont, a major dealer of Caterpillar heavy equipment, will enable PowerTech to market its products in Ontario, Manitoba and Newfoundland.

Thiessen is a world-renowned mining equipment specialist that distributes its products mainly in Canada and the United States. Through its wide distribution network, Toromont provides us with access to a vast market of construction entrepreneurs.

Through our alliance with Thiessen, PowerTech can break into a niche market to serve the specialized needs of the mining sector.

Earlier in 2006, we also announced that we concluded a distribution agreement with the company Finning (Canada). This deal enables PowerTech to market its products in Western Canada, a market in full expansion. In this region of the country, Finning operates a large network of branches in cities such as Vancouver, Calgary and Edmonton, among others.

One of our main marketing challenges relates to launching new technology into a traditionally conservative market. As is typical for the construction sector, this conservatism results in a longer introductory period compared to other fields of business. Because of this, our partnership agreements represent the most effective means of overcoming and mitigating any initial resistance. In addition, with the sale of 14 PicBucket units, we have already begun to break into the market and are raising growing interest in our technology. We are confident that these first sales – the most difficult to make – will set a positive trend for the future.

Promising business outlook in the United States

In the United States, PowerTech has struck two distribution agreements with sister companies Low Country Machinery and Central Georgia JCB, both of which do business in the U.S. state of Georgia. This alliance opens up a major market opportunity to us, including the City of Atlanta. In the future, we intend to conclude new distribution agreements of the same kind in the United States, targeting other large American cities. Aging infrastructures and large budgets allocated to road restoration indicate a promising business outlook for PowerTech in the United States.

To support its business development efforts, PowerTech is also backed by a direct sales network made up of three regional sales managers in Canada and one manager for the North Eastern region of the U.S. – the market which offers the Company's best development outlook in America.

Signing distribution agreements with partners who are well established in their markets is a key element of our business expansion strategy. By allying ourselves with credible players that dominate their markets, we can quickly find major, potential new business avenues. Furthermore, these agreements allow us to set up demonstration centres for our technology at our partners' key branches and implement joint start-up programs with target clienteles. In addition, we are presently involved in serious negotiations with several other major distributors and we plan to form new partnership agreements in the coming quarters in both Canada and the United States.

We have also begun discussions with Original Equipment Manufacturers (OEM) and Attachment Equipment Manufacturers (AEM), which may also lead to the conclusion of strategic alliances. However, signing agreements with such partners demands more time because they first require carrying out a due diligence process. This kind of agreement would represent a major stamp of approval for our technologies and products, enabling the Company to move to a much more intensive commercialization stage.

New products: new markets

PowerTech's multifunctional percussion bucket, which has no equivalent in the construction industry, has numerous possibilities for applications that all offer promising potential markets for the Company. The commercialization of our first product line, the 2000 Series, has allowed us to validate and confirm the reliability of the PicBucket, as well as the substantial productivity gains it generates.

Following on the success of this first version of the PicBucket, in recent months we launched the 1000 Series, which is aimed at the rapidly growing mini-excavator market. Furthermore, we are presently developing the 3000 Series, designed for large-sized excavators weighing up to 15.5 tons. The qualification trials for this new series will be conducted this winter and continue until Spring 2007.

A new technological platform

Our technological development program also involved trials of the DHU Series (Dual Hydraulic Unit), a PicBucket equipped, as its name indicates, with two hydraulic cells. The DHU targets 20 to 30 ton excavators, the largest segment of this market. This new multiple unit technological platform could allow for a considerable increase in the number of possible applications for the PicBucket. This represents one of the key levers of our future success.

Multiple hydraulic cell buckets have greater impact power and increase the performance of demolition tools. Multiplying demolition points allows for breaking up cement even more quickly and makes excavating in frozen soil easier and more efficient. Another important potential application is the capability of digging deeper and larger trenches in permafrost, which would address the significant needs of the pipeline market around the world. This is especially relevant to Canada where three major projects are expected to begin very soon.

As you can see, PowerTech made major progress with respect to operations, technology and commercialization during the last year. Among these steps forward, we can also include our new 23,000 square foot facility located in Terrebonne. This facility provides us with enough production capacity to meet our present and future needs, enabling us to support our development strategy. Furthermore, during the past year we also conducted two rounds of private financing, raising more than $2.0

million. The proceeds of these placements were allocated to the Company's commercial and technological development activities.

In 2006, PowerTech completed new and important phases of its development that have paved the way for rapid business growth. The major benefits of our technology are increasingly known in the industry and in our target markets; we are backed by an expanding network of business partners; our marketing activities are intensifying; we have an effective and targeted technological development program aimed at markets with strong commercial potential; and internally we are backed by a dynamic and highly competent executive team. For these various reasons, we believe that PowerTech can successfully pursue its development in 2007 and continue to create value for its shareholders.

Carol Murray

President and Chief Executive Officer
Power Tech Corporation Inc.

MANAGEMENT DISCUSSION AND ANALYSIS

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. ("PowerTech") (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, 2006.

Introduction

This fiscal year is the first complete year as a listed company on the TSX Venture Exchange and covers the 12 month period ending September 30, 2006. During the 2005 fiscal year, the company's yearend was changed from August 31 to September 30, resulting in a reporting period of 13 months ending September 30, 2005 for last fiscal year.

These consolidated financial statements of the company 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.

Company Overview

PowerTech is the only company in the world that manufactures and commercializes a percussion bucket for the construction, demolition, aluminum, mining, tunnel digging, forestry and military industries. PowerTech's percussion bucket, commercialized under the PicBucket and PicHammer brand names, is a technological breakthrough that combines the power of a hydraulic hammer with the stripping force and maneuverability of a conventional bucket.

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. We want 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 still used today in new territories is a focused, regional 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 pioneering and 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.

The success of the V.I.Pic program has led to both the first commercial sales and the signing of the company's first distribution agreements. Five distribution agreements have been signed including Finning Canada, Caterpillar's largest distributor and its exclusive distributor in western Canada, Toromont, largest Caterpillar dealer by territory for Central Canada, Thiessen, a mining equipment manufacturer specialised in the mining industry and Low Country Machinery and Central Georgia JCB in the state of Georgia have all become distributors of Power Tech's products.

General Overview and Development Status Report - 2006

Power Tech has progressed greatly in the last twelve months, most significantly in the business development area where a skilled, focused sales team has been put in place to prospect new business and manage and coordinate the efforts with our increasing number of distributors.

The critical key resource hire in January, 2006 of Yves Sicotte as VP, Sales and Marketing and then the deployment of four territory managers during the year has moved the company a step closer to covering the key territories in its commercial deployment of its technology. The team has been in place for about half of the year and great progress was made in prospecting and introducing the technology to a large number of potential clients. The sales opportunities continue to grow at an impressive rate and these efforts paid off in earned revenues of $419,707 during the 2006 fiscal year.

Significant future sales growth will be the result of more and more agreements with distributors and other partners who can present Power Tech to much larger audiences. During the year, 5 distributor agreements were signed with such major industry players as Finning Canada in western Canada and Toromont in central Canada.

Considering the progress made during the year, the Corporation does not consider itself to be in the development phase but actually focused on full scale commercialization of its products.

Year in Review – Financing Highlights 2006

Completion of Private Equity Financing

During the 2006 fiscal year, the Company completed an equity financing by raising gross proceeds of $1,000,120. The financing was completed in two separate closings, the first on June 22, 2006 for gross proceeds of $760,120 and the second on September 1, 2006 for $240,000.

The Company issued 1,666,866 units (each unit consisting of a share at $0.60 and a half-warrant) for gross proceeds of $1,000,120, comprising of $758,940 for the shares and $241,180 for the warrants attached to the 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 116,681 warrants to the agents as compensation. These warrants were accounted for as share issue expenses in the amount of $33,767. 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.

Completion of a convertible debenture financing with FIER Cap Diamant

In September, 2006, the company completed a $1.0 million financing with FIER Cap Diamant, limited partnership. This financing, in the form of a 5 year convertible debenture with an interest rate of 11% and expiring September 29, 2011, allows for conversion at anytime into one Power Tech unit (including one common share and one half of 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 TSX Venture Exchange. Interest is payable February 28th and September 30th of each year beginning on February 28th, 2008. The interest from September 29, 2006 to September 29, 2007 is repayable in 8 equal installments of $13,750 every six months beginning on February 28, 2008. It is important to note that this debenture has both a liability and an equity portion. The liability portion was determined by calculating the capital amount plus accrued interest at a rate of 18% to the September 2011 expiry date, a rate chosen to reflect an appropriate interest rate for a company at this stage of development and the risk that such an investment represents in a context where the financial instrument comprises no conversion privilege. The equity portion represents the difference.

Receipt of Government Aid

In the 2005 fiscal 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, 2006, Power Tech had received amounts totalling $81,755. Repayments, with no interest, are reimbursable in ten semi-annual instalments of $9,750 starting in June, 2008 and ending in January, 2013.

The contribution from this program has been classified as part revenue ($43,743) and part long term liability ($38,012) 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 to a maximum of $175,000. During the fiscal year of 2006, $106,674 was received from this program and an amount of $48,993 was accrued for expenses already incurred but not yet received as of September 30, 2006.

Promissory note

The company entered into a promissory note of an amount of $400,000, bearing interest at 14% and repayable in full by October 31, 2007 included all accumulated interest.

Exercise of Stock Options and Warrants

During the year, the Corporation issued 540,000 common shares for a cash consideration of $170,000 following the exercise of 540,000 stock options at prices ranging from $0.25 to $0.50 per share.

In addition, 163,000 common shares were issued for a cash consideration of $97,800 following the exercise of 163,000 warrants at a price of $0.60 per share.

Selected Financial Information

	2006 (365 days) $	**2005 (395 days) $**
Revenues	**419,707**	0
Net Loss	**(2,219,695)**	(1,773,235)
Basic and Diluted loss per share	**(0.08)**	(0.08)
Total Assets	**3,417,902**	2,530,673
Total long term liabilities	**2,864,878**	1,419,731
Cash on Hand	**1,278,686**	1,376,376

Results of Operations

The 2006 fiscal year was one of significant investment in developing the company's distribution network and continuing the deployment of its commercialization plan. Power Tech has made the transition in the last two years from a company focused on technology development, still working on fine tuning the technology, to one focused on selling and aggressively pursuing all potential business development opportunities.

Sales

$419,707 of revenue was earned for the year resulting from the sale of a combination of 12" and 24" Series 2000 PicBuckets and their associated accessories. The majority of this revenue was earned in the last four months of the year, a sign of a return on the focused commercialization efforts of the previous months.

Gross Margin

The gross margin for the year is 24.5%. Margins for 2006 were less than what would be expected due to a couple of reasons. Firstly, the overhead costs allocated to inventory are significant this year simply because sales are beginning and the fixed overhead costs make up a larger percentage of sales than they would in full production. As sales growth continues these relatively fixed costs will represent a smaller percentage of cost of goods sold.

In addition, V.I.Pic program participants benefited from preferred prices during these initial sales. This program will continue to be used as new territories are opened but sales through this program will represent a smaller percentage of total sales as time passes.

Moreover, efforts made at introducing this new technology may also require reduced margins for initial sales until a sufficient quantity has been sold and that the product introduction reaches its next stage. Once more significant sales volumes have been achieved, margins will improve as early adopter promotions are eliminated.

Administrative expenses

Administrative expenses totaled $1,096,707 for the year ended September 30, 2006 versus $1,240,727 for the same period last year. Significant portions of this expense include salaries and wages of $299,107, the administrative compensation cost associated with company stock options $181,155 and professional and legal fees $273,485.

Selling and Commercialization Expenses

Selling and commercialization expenses totaled $828,751 versus $454,508 for the same period last year. The addition of four full time territory managers working under a Vice-President of Sales and Marketing that have been in place since the middle of the year is the main reason for this increase. Last year, the focus of the sales and marketing expenses revolved around creating the corporate marketing tools, logo, website and image. This year's expenses have been more focused on the deployment of a sales team and the efforts in targeted territories to generate sales and business opportunities.

Financial expenses

Financial expenses of $184,204 this year are significantly more than the $58,467 last year. The majority of this increase is explained by the accrued interest on the convertible debentures. Last year, a $1.5 million convertible debenture was issued on August 2nd, 2005 so slightly less than 2 months of interest was accumulated versus a full twelve months in this fiscal year.

Amortization of property, plant and equipment

Amortization of the company's property, plant and equipment totaled $62,704 for the year versus $22,176 for the 2005 fiscal year. The base of fixed assets grew significantly this year specifically due to the additional needs of a larger employee base and a growing operation in a new facility that has been occupied since March, 2006. With that growth in fixed assets, amortization has increased in tandem.

Amortization of other Assets

The amortization of other assets is comprised of three parts: development costs, patents and financing costs. The total of these accounts was $199,102 for the 2006 fiscal year compared to $78,631 in the previous year.

The majority of this change is related to development costs, amortized on a straight-line basis over a period of three years from the beginning of commercialization activities (the major projects are to be fully amortized by March, 2007) and their amortization totals $181,042 compared to $69,741 for the same period last year.

While the amortization expense of the patents is very similar to last year, the increase in financial costs amortization from $1,783 in 2005 to $10,696 in 2006 is due to the full year amortization of financing costs related to the convertible debenture issued in August, 2005.

Other Revenues

Other revenues totaled $49,092 in 2006 compared to $81,274 in 2005. The major difference year over year is the result of a retirement of ten convertible debentures in 2005 that resulted in a gain of $35,150.

In 2006, interest revenue of $20,757 was earned from cash deposits made in interest-bearing short term investments in Canadian financial institutions. In addition, $11,229 was earned as rental revenue for a portion of the company's new building being subleased to a third party. No rental revenues were earned in 2005.

Net Loss

The net loss for the 2006 fiscal year is $2,219,695 compared to $1,773,235 in 2005. This loss is an accumulation of all the expenses already explained above. Increased amounts invested in business development and marketing efforts in addition to the ongoing administrative expenses of the business were the main components of this loss.

Summary of Quarterly Results

Below is a summary of the eight periods for which Power Tech has published interim financial statements. While the periods outlined below are not all equal, the reporting period is now normalized with a September 30 fiscal year end.

Quarter ended	Revenues	Net Loss	Net loss per share Basic	Net loss per share Diluted
	$	$	$	$
September 30, 2006	48,770	(690,168)	(0.02)	(0.02)
June 30, 2006	231,477	(481,819)	(0.02)	(0.02)
March 31, 2006	39,500	(654,001)	(0.02)	(0.02)
December 31, 2005	99,960	(393,707)	(0.02)	(0.02)
September 30, 2005	0	(450,412)	(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)

Notes:

1. Power Tech has 30,119,866 outstanding common shares and an additional 1,704,550 options and 5,787,114 warrants outstanding. Therefore, the total number of fully diluted shares outstanding is 37,611,530. 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:

	2006	2005
Common shares outstanding	**30,119,866**	27,750,000
Stock options outstanding	**1,704,550**	2,106,500
Share warrants outstanding	**5,787,114**	5,000,000
Fully diluted shares outstanding	**37,611,530**	34,856,500

Balance Sheet

Cash and Cash Equivalents

Cash on hand at September 30, 2006 was $1,278,686 compared to $1,376,376 at September 30, 2005. Despite a net loss, two major financing transactions during the 2006 fiscal year maintained the cash on hand at a level similar to last year. These two financings were the private equity financing for $1,000,120 and a convertible debenture financing for $1,000,000.

Current Assets

Current assets have increased from $2,165,993 at September 30, 2005 to $2,763,511 at September 30, 2006. Inventory remains a significant portion of current assets, an investment required to perform product demonstrations and to support future sales growth. As a result, inventory increased to $1,109,766 from $533,633 at September 30, 2005.

Current Liabilities

Accounts payable and accrued liabilities increased from $204,797 at September 30, 2005 to $393,291 at September 30, 2006. There was simply an increase in the amount of accounts payable at the end of the period compared to September 30, 2005 and a provision for warranty claims resulting from the first sales of the company this year.

Property, plant and equipment

Investment in fixed assets increased substantially since September 30, 2005 due primarily to the acquisition of equipment to furnish the company's new facility which has been occupied since the beginning of March, 2006. As a result, the capitalized value of fixed assets has increased over the last twelve months from $59,631 to $244,918.

Intangible Assets

The company's intangible assets are the intellectual property, specifically patents. The only difference was some amortization booked during the year.

Deferred Charges

Deferred charges can be broken down into two components: development costs and financing costs related to the fees associated with the two convertible debenture financings – the first negotiated in August, 2005 and the second in September, 2006.

Deferred development costs totaled $229,800 at September 30, 2006 which represents an increase of $94,929 from September 30, 2005. Development efforts focused primarily on the development of new product lines and the fine-tuning of the currently commercially available Series 2000 including some specific tool designs. During the year, development continued on the Series 1000 PicBucket, a smaller version of the Series 2000 aimed at serving the mini-excavator market, and the Series 3000 unit for slightly larger excavators than the Series 2000 market.

Deferred financing costs totaled $64,161 at September 30, 2006 compared to $51,696 at September 30, 2005. These amounts are amortized over the life of the convertible debentures. In both cases this is a 60 month period.

Long-Term Debt

The majority of the long-term debt is made up of the two convertible debentures and the liability component of these debentures is valued at $2,382,156 as of September 30, 2006. The second of these debentures, issued on September 29, 2006, generated $1,000,000, of which $824,557 was accounted for as the liability component of the financial instrument.

In addition, the company incurred a promissory note during the 2006 fiscal year for an amount of $400,000 with an annual interest rate of 14% and is payable in full, with accumulated interest, on October 31, 2007. The loan has no conversion features and interest is not compounded.

Long term debt amounts related to the long term loan from Economic Development Canada increased during the year from $20,911 as at September 30, 2005 to $43,018 at the end of September, 2006 due to an additional amount received during the year and the effect of accumulated interest.

In addition, the company entered into a loan agreement in order to purchase some automotive equipment in the first quarter of 2006. The original amount of the term loan was $29,942.

Statement of Cash Flows

Cash used for Operating Activities

Cash used for operating activities for the year ended September 30, 2006 was $2,054,537. 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 has had a significant negative contribution to the cash related to operating activities of $456,714. An increase in on-hand inventory and accounts receivable explains the majority of this increase. Inventory on hand is expected to decrease in the coming months as sales volumes begin to increase.

Cash used by Investing Activities

Investing activities for the year consumed $601,517. Two major areas of investment this year were on fixed assets, mostly for the new building facility, in the amount of $247,991 and an amount of $349,132 spent in research and development and financial expenses which was capitalized on the balance sheet as a deferred cost.

Cash provided by Financing Activities

Financing activities for the year generated $2,558,364. The three major components of this amount was the $1,000,000 and the $1,000,120 respectively generated from the convertible debenture and private placement financing and $447,298 from the long term debt.

An amount of $267,800 was generated from the exercise of stock options and warrants.

The amount of $151,235 as equity instrument issue costs relates to professional fees and commission for the issuance of units under the private placement discussed previously.

Financial Position

As of September 30, 2006, the corporation has working capital of $2,363,067 including $1,278,686 of cash.

In recent months, revenue has grown at a steady pace 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.

While 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. The company is working on acquiring financing that will provide the company with resources for the next 24 to 36 months, allowing the full deployment of its business plan. The company has future capital requirements, especially for new product and new technology development, marketing and special programs developed to penetrate targeted markets. 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, 2006, the Company has three contracted obligations – one for an equipment lease, another for a vehicle lease and one for a building lease.

Power Tech began occupying a new facility in March, 2006 and has entered into a 15 year lease agreement. Power Tech is the sole lessee and has a purchase option exercisable after five years.

The lease became effective on March 1, 2006 and lease payments for the first five years have already been 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 net payments for the following ten years.

The Company's commitments call for the following *remaining* minimum payments in the coming fiscal years:

	Total $	2007 $	2008/2009 $	2010/2011 $	Subsequent Years $
Equipment Lease	6,486	2,000	3,986	500	0
Vehicle Lease	20,654	7,995	12,659	0	0
Building Lease	2,891,600	231,605	446,955	425,100	1,787,940
Long Term Debt	521,459	7,153	455,671	34,110	24,525
TOTAL	**3,440,199**	**248,753**	**919,271**	**459,710**	**1,812,465**

Related Party Transactions

Commitment

The building lease agreement is with 6316123 Canada Inc., a company which is 20% 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. As of September 30, 2006 a total of $136,954 was paid by PowerTech to this company.

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.

Administrative Expenses

An amount of $60,000 for general legal services and guidance in investment securities was paid during the 2006 fiscal year and $65,000 during the 2005 fiscal year to a company controlled by a shareholder and director of the company.

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 the notes of the audited annual financial statements as of September 30, 2006 for a description of significant accounting policies. More precisely, the management of Power Tech has identified the following critical accounting policies:

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 $2,219,695 during the current year [$1,773,235 in 2005] and has an accumulated deficit of $4,601,694 as at September 30, 2006 [$2,196,997 in 2005]. The Company expects to have future capital requirements, specifically for technology development, marketing initiatives, debenture and long-term debt servicing and potentially, depending upon the growth of sales in the coming periods to service its obligations in the normal course of business. The Company wishes to fund its future capital requirements mainly by way of available cash and cash flows from operations and, if necessary, through additional capital. Even though the company cannot guarantee the ability to secure sufficient financing, they have demonstrated in the past their ability to raise capital to finance its operations. The Company has realized a significant increase in sales during the final few months of 2006 compared to prior periods. The Company's future ability to generate sufficient short-term and long-term capital depends 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.

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-live 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 accordingly has based its assumptions on industry data and other sources of available information.

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.

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

Disclosure controls and procedures

The President and Chief Executive Officer and the Chief Financial Officer assessed the disclosure controls and procedures (as defined in Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Fillings) as at September 30, 2006, and concluded that the controls and procedures gave reasonable assurance that the material information with respect to the Company is communicated to management, in particular during the period where annual documents are prepared.

Internal controls over financial reporting

Internal control over financial reporting ("ICFR") is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its compliance with GAAP in its financial statements. The President and Chief Executive Officer and Chief Financial Officer have evaluated whether there were changes to its ICFR during the year ended September 30, 2006 that have materially affected, or are reasonably likely to materially affect, its ICFR. No such changes were identified through their evaluation.

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 – In the event that the current business 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

Terrebonne, Québec, January 8, 2007

AUDITOR'S 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, 2006 and 2005 and the consolidated statements of loss, deficit and cash flows for years 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, 2006 and 2005 and the results of its operations and its cash flows for years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Québec City, Canada
November 3, 2006.

Chartered Accountants

Power Tech Corporation Inc.

CONSOLIDATED BALANCE SHEETS
[note 2]

As at September 30,	**2006** $	**2005** $
ASSETS		
Current assets		
Cash and cash equivalents	**1,278,686**	1,376,376
Accounts receivable *[note 4]*	**263,083**	203,811
Tax credits receivable	**50,000**	35,000
Inventories *[note 5]*	**1,109,766**	533,633
Prepaid expenses	**61,976**	17,173
	2,763,511	2,165,993
Advances to a shareholder *[note 6]*	**19,508**	19,508
Property, plant and equipment *[notes 7 and 12]*	**244,918**	59,631
Intangible assets *[note 8]*	**96,004**	98,974
Deferred charges *[note 9]*	**293,961**	186,567
	3,417,902	2,530,673
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**393,291**	204,797
Short term component of long-term debt *[note 12]*	**7,153**	—
	400,444	204,797
Liability component of convertible debentures *[note 11]*	**2,382,156**	1,398,820
Long-term debt *[note 12]*	**475,569**	20,911
Shareholders' equity		
Capital stock *[note 13]*	**2,826,483**	1,615,998
Warrants *[note 13]*	**1,200,749**	957,000
Contributed surplus *[note 13]*	**445,093**	416,485
Equity component of convertible debentures *[note 11]*	**289,102**	113,659
Deficit	**(4,601,694)**	(2,196,997)
	159,733	906,145
	3,417,902	2,530,673

Commitments *[note 16]*

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 years ended September 30,

	2006 [365 days] $	**2005** [395 days] $
Deficit, beginning of year	**(2,196,997)**	(364,099)
Net loss	**(2,219,695)**	(1,773,235)
Share and equity instrument issue costs	**(185,002)**	(54,843)
Premium on settlement of equity component of convertible debentures	**—**	(4,820)
Deficit, end of year	**(4,601,694)**	(2,196,997)

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

Power Tech Corporation Inc.

CONSOLIDATED STATEMENTS OF LOSS

For the years ended September 30,

	2006 [365 days] $	2005 [395 days] $
Sales	**419,707**	—
Cost of goods sold	**317,026**	—
Gross margin	**102,681**	—
Expenses		
Administration Expenses	**1,096,707**	1,240,727
Selling and commercialization expenses [net of government assistance of $115,119 in 2006 and $56,126 in 2005]	**828,751**	454,508
Interest expenses	**184,204**	58,467
Amortization of property, plant and equipment	**62,704**	22,176
Amortization of other assets		
Development costs	**181,042**	69,741
Patents	**7,364**	7,107
Financing costs	**10,696**	1,783
	2,371,468	1,854,509
Operating loss	**(2,268,787)**	(1,854,509)
Other revenues		
Interest	**20,757**	19,487
Rental	**11,229**	—
Contribution – Economic Development Canada *[note 12]*	**17,106**	26,637
Gain on settlement of liability component of convertible debentures	**—**	35,150
	49,092	81,274
Net loss	**(2,219,695)**	(1,773,235)
Basic and diluted loss per share	**(0.08)**	(0.08)
Weighted average number of shares outstanding during the year [in thousands]	**28,603**	23,598

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

Power Tech Corporation Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended September 30,

	2006 [365 days] $	2005 [390 days] $
OPERATING ACTIVITIES		
Net loss	**(2,219,695)**	(1,773,235)
Adjustments for:		
Amortization of property, plant and equipment	**62,704**	22,176
Amortization of other assets	**199,102**	78,631
Accrued interest on convertible debentures	**158,779**	55,834
Accrued interest on long term debt	**20,132**	255
Gain on settlement of liability component of convertible debentures	**—**	(35,150)
Stock-based compensation expense	**181,155**	331,485
	(1,597,823)	(1,320,004)
Net change in non-cash working capital items	**(456,714)**	(702,779)
Cash flows used for operating activities	**(2,054,537)**	(2,022,783)
INVESTING ACTIVITIES		
Additions to property, plant and equipment	**(247,991)**	(50,955)
Additions to intangible assets	**(4,394)**	(21,272)
Increase in deferred charges	**(349,132)**	(135,114)
Cash flows used for investing activities	**(601,517)**	(207,341)

Power Tech Corporation Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS [CONT'D]

For the years ended September 30,

	2006 [365 days] $	**2005** [395 days] $
FINANCING ACTIVITIES		
Reverse takeover and merger *[note 1]*	**—**	540,594
Loan – CMJ Capital Inc.	**—**	250,000
Issuance of convertible debentures	**1,000,000**	1,500,000
Repayment of convertible debentures and accumulated interest	**—**	(696,701)
Increase in long-term debt	**447,298**	20,656
Reimbursement of long-term debt	**(5,619)**	—
Issuance of units	**1,000,120**	2,000,000
Issuance of common shares	**267,800**	—
Equity instrument issue costs	**(151,235)**	(54,843)
Cash flows provided by financing activities	**2,558,364**	3,559,706
Net increase (decrease) in cash and cash equivalents	**(97,690)**	1,329,582
Cash and cash equivalents, beginning of year	**1,376,376**	46,794
Cash and cash equivalents, end of year	**1,278,686**	1,376,376

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

Power Tech Corporation Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006 and 2005

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

Power Tech Corporation Inc. ("Power Tech" or the "Company") was incorporated under Part 1A of the Companies' Act (Québec) and manufactures a percussion bucket for the construction, demolition, aluminium, mining, tunnel digging, forestry and military industries. PowerTech's percussion bucket, commercialized under the PicBucket and PicHammer brand names, combines the power of a hydraulic hammer with the stripping force and manoeuvrability of a conventional bucket.

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 were valued at $85,000 at the acquisition date and all were exercised during the year at a price of $0.25.

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

1. Nature of Business and Basis of Presentation [Cont'd]

	$
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**
Value allocated to the 5,000,000 shares issued in Capital CMJ	**572,893**

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 $2,219,695 during the current year [$1,773,235 in 2005] and has an accumulated deficit of $4,601,694 as at September 30, 2006 [$2,196,997 in 2005]. The Company expects to have future capital requirements, specifically for technology development, marketing initiatives, debenture and long-term debt servicing and potentially, depending upon the growth of sales in the coming periods to service its obligations in the normal course of business. The Company wishes to fund its future capital requirements mainly by way of available cash and cash flows from operations and, if necessary, through additional capital. Even though the company cannot guarantee the ability to secure sufficient financing, they have demonstrated in the past their ability to raise capital to finance its operations. The Company has realized a significant increase in sales during the final few months of 2006 compared to prior periods. The Company's future ability to generate sufficient short-term and long-term capital depends 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.

3. SIGNIFICANT ACCOUNTING POLICIES

Consolidation

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

Use of Estimates

The Corporation's financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. 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.

Cash and Cash Equivalents

Cash equivalents consist of investments that are readily convertible into a known amount of cash, that are subject to minimal risk of changes in value and which have an original maturity of three months or less from the date of purchase.

Inventories

Inventories are valued at the lower of cost and market value. Cost is determined using the first-in, first-out method and includes raw materials, direct labour and manufacturing overhead costs. Market value is equal to net realizable value with respect to finished goods and to replacement cost with respect to raw material.

3. SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

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	1-5 years
Computer hardware	3 years
Computer software	3 years
Automotive equipment	3 years
Leasehold improvements	5 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

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 year.

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 year incurred.

Loss per Share

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

Diluted loss per share was calculated using the weighted average number of outstanding common shares during the year, plus the dilutive effect of issued stock options and 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 13 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.

3. SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

Stock-Based Compensation and Other Stock-Based Payments

The Company offers a stock option plan, described in note 13. 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 over the expected term of the award. These expenses are included in the stock-based compensation expense and credited to the contributed surplus. When options are exercised, the proceeds received by the Company, together with the fair value amount in contributed surplus, are credited to capital stock.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

Foreign currency translation

Foreign currency transactions are translated into Canadian dollars using the temporal method. Under this method, monetary balance sheet items are translated at year-end exchange rates and non-monetary items are translated at historical exchange rates. Revenues and expenses are translated at the exchange rate on the transaction date or at the average rates of exchange prevailing during the year. Any resulting exchange gains or losses are included in the income statement.

4. ACCOUNTS RECEIVABLE

	2006	2005
	$	$
Customers	**160,398**	—
Commodity Taxes Receivable	**53,692**	147,685
Government grant receivable (a)	**48,993**	56,126
	263,083	203,811

(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

	2006	2005
	$	$
Raw Materials	**23,584**	29,770
Work in progress	**303,122**	108,029
Finished Goods	**783,060**	395,834
	1,109,766	533,633

6. ADVANCES TO A SHAREHOLDER

These advances are subject to a 5% interest rate and are repayable in $200 monthly installments beginning in January, 2007.

7. PROPERTY, PLANT AND EQUIPMENT

	2006		2005	
	Cost	**Accumulated amortization**	Cost	Accumulated amortization
	$	$	$	$
Moulds	**22,970**	**6,256**	17,015	2,436
Machinery and equipment	**28,800**	**6,377**	8,878	2,091
Office furniture	**134,398**	**19,860**	3,054	1,081
Computer hardware	**50,746**	**29,195**	43,618	13,767
Computer software	**12,744**	**9,547**	11,740	5,299
Automotive equipment	**30,131**	**9,207**	—	—
Leasehold improvements	**52,507**	**6,936**	—	—
	332,296	**87,378**	84,305	24,674
Accumulated amortization	**87,378**		24,674	
Net book value	**244,918**		59,631	

8. INTANGIBLE ASSETS

	2006	2005
	$	$
Patents	**112,520**	108,126
Accumulated Amortization	**16,516**	9,152
Net book value	**96,004**	98,974

During the year, the Company capitalized costs related to its patents amounting to $4,394 [$21,273 in 2005].

9. DEFERRED CHARGES

	2006		2005	
	Cost	**Accumulated amortization**	Cost	Accumulated amortization
	$	$	$	$
Development Costs [net of R&D tax credits of $58,120 in 2006 and $88,578 in 2005]	**505,179**	**275,379**	229,208	94,337
Financing Expenses	**76,640**	**12,479**	53,479	1,783
	581,819	**287,858**	282,687	96,120
Accumulated amortization	**287,858**		96,120	
Net book value	**293,961**		186,567	

10. CREDIT FACILITY

The Company has a credit facility with a maximum authorized amount of $50,000, bearing interest at the prime rate plus 3%, renewable annually. The credit facility has been secured by a director. As at September 30, 2006 and 2005, this credit facility was undrawn.

11. LIABILITY COMPONENT OF CONVERTIBLE DEBENTURES

	2006	2005
	$	$

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:

11. LIABILITY COMPONENT OF CONVERTIBLE DEBENTURES [CONT'D]

	2006 $	2005 $
(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. [see note (a)]	**1,500,000**	1,500,000
Equity component of convertible debentures	**(113,659)**	(113,659)
	1,386,341	1,386,341
Accumulated interest	**171,258**	12,479
Carry forward	**1,557,599**	1,398,820

11. LIABILITY COMPONENT OF CONVERTIBLE DEBENTURES [CONT'D]

	2006 **$**	2005 $
Carried forward	**1,557,599**	1,398,820
Debenture, bearing interest at 11% compounded annually, maturing on September 29, 2011. Interest is payable every February 28th and September 29th of each year beginning on February 28th, 2008. The interest from September 29, 2006 to September 29, 2007 is repayable in 8 equal instalments of $13,750 every 6 months beginning on February 28, 2008. The debenture is convertible as per the following terms and conditions: (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 September 28, 2008. For all subsequent years, until September 29, 2011, 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-half share warrant entitling the holder to subscribe, at the earliest date of either two years after issuance or September 29, 2011, 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 at any time, in whole or in part, if during at least 20 consecutive days, the closing price of the Company's common shares was $1.40 or more and the debenture has not already been converted. [see note (b)]	**1,000,000**	—
Equity component of convertible debentures	**(175,443)**	—
	824,557	—
	2,382,156	1,398,820

11. LIABILITY COMPONENT OF CONVERTIBLE DEBENTURES [CONT'D]

(a) The liability portion 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 portion represents the difference.

(b) The liability portion was determined by calculating the capital amount plus accrued interest at a rate of 18% to the September 2011 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 portion represents difference.

12. LONG TERM DEBT

	2006 $	2005 $
Non-interesting contribution payable, Canada Economic Development, 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 September 30, 2006 the Company had received amounts totalling $81,755. This contribution was discounted using a rate of 18%, considering the market rate for a similar financial instrument.	**81,755**	47,293
Amount recorded under other revenues	**(43,743)**	(26,637)
	38,012	20,656
Accumulated interest	**5,006**	255
Carry Forward	**43,018**	20,911

12. LONG TERM DEBT [CONT'D]

	2006 $	2005 $
Carried forward	**43,018**	20,911
Term loan, 6.45%, repayable in monthly instalments of $709 in principal and interest, maturing in November 2009. Automotive equipment with a net book value of $20,924 has been pledged as security.	**24,323**	—
Promissory rate, 14%, payable in full, with accumulated interest, on October 31, 2007.	**400,000**	—
Accumulated Interest	**15,381**	—
	415,381	—
	482,722	20,911
Short-term component of long-term debt	**7,153**	—
	475,569	20,911

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

	$
2007	7,153
2008	431,185
2009	24,486
2010	17,759
2011	16,351

13. CAPITAL STOCK

Authorized [before the reverse takeover described in note 1]

Unlimited number of common 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 option of the shareholder.

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

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

Category E preferred shares, non-voting and non-participating, non-cumulative preferred dividend at 1% per month, priority over Category A, B, F, G, H and I shares and redeemable at the option of the shareholder for the amount paid plus a premium.

Category F preferred shares, non-voting and non-participating, non-cumulative preferred dividend at 1% per month, priority over Category A, B, G, H, and I shares and redeemable at the option of the shareholder for the amount paid plus a premium.

Category G preferred shares, non-voting and non-participating, non-cumulative preferred dividend at prime bank rate plus 1% per year, priority over Category A, B, H, and I shares, and redeemable at the option of the shareholder for the amount paid plus a premium.

Category H preferred shares, non-voting and non-participating, non-cumulative preferred dividend at 8% per year, priority over Category A, B, and I shares, and redeemable at the option of the shareholder for the amount paid.

13. CAPITAL STOCK [CONT'D]

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

Category I preferred shares, non-voting and non-participating, non-cumulative preferred dividend at 8% per year, priority over Category A and B shares, and redeemable at the option of the Company for the amount paid.

Authorized [after the reverse takeover described in note 1]

Unlimited number of common shares, without par value.

Issued and fully paid

	Class A		Common		Total	Warrants	
	Number	$	Number	$	$	Number	$
Balance as at August 31, 2004	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
Balance as at September 30, 2005	—	—	27,750,000	1,615,998	1,615,998	5,000,000	957,000
Issued for cash – private placement	—	—	1,666,866	758,940	758,940	950,114	274,947
Stock options exercised	—	—	540,000	322,547	322,547	—	—
Warrants exercised	—	—	163,000	128,998	128,998	(163,000)	(31,198)
Balance as at September 30, 2006	—	—	30,119,866	2,826,483	2,826,483	5,787,114	1,200,749

13. CAPITAL STOCK [CONT'D]

2006

The Corporation concluded a private placement by issuing 1,666,866 units (each unit consisting of a share and a half-warrant) for gross proceeds of $1,000,120, comprising of $758,940 for the shares and $241,180 for the warrants attached to the 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 116,681 warrants to the agents as compensation. These warrants were accounted for an amount of $33,767. 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.

In addition, during the year, the Corporation issued 540,000 common shares for a cash consideration of $170,000 following the exercise of 540,000 stock options at price ranging from $0.25 to $0.50 per share. The Corporation also issued 163,000 common shares for a cash consideration of $97,800 following the exercise of 163,000 warrants at price of $0.60 per share.

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.

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.

13. Capital Stock [cont'd]

	2006		2005	
	Number of options	**Weighted average exercise price ($)**	Number of options	Weighted average exercise price ($)
Outstanding, beginning of year	**2,106,500**	**0.47**	—	—
Granted under the plan	**330,050**	**0.72**	1,706,500	0.52
Exercised	**(540,000)**	**0.31**	—	—
Cancelled	**(192,000)**	**0.52**	—	—
Reverse Takeover *[note 1]*	**—**	**—**	400,000	0.25
Outstanding, end of year	**1,704,550**	**0.56**	2,106,500	0.47
Exercisable options, end of year	**1,051,851**	**0.56**	1,250,000	0.42

			2006	
Date of grant	**Maturity date**	**Exercise price** $	**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	22,300
November 7, 2005	November 7, 2010	0.72	15,000	—
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
			1,704,550	1,051,851

13. CAPITAL STOCK [CONT'D]

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:

	2006	2005
Expected dividend yield	**None**	None
Expected volatility	**90-100%**	100%
Risk-free interest rate	**3.7%–4.49%**	2.94–3.54%
Expected life in years	**2–4**	2-4

Warrants

Issuance date	**Maturity date**	**Exercise price**	**Outstanding and exercisable warrants**
		$	
February 11, 2005	February 11, 2007	0.60	4,837,000
June 22, 2006	June 22, 2008	0.80	722,114(1)
September 1, 2006	September 1, 2008	0.80	228,000(2)
			5,787,114

(1) Includes 88,681 broker warrants
(2) Includes 28,000 broker warrants

13. CAPITAL STOCK [CONT'D]

Contributed Surplus

	2006 $	2005 $
Balance, beginning of year	**416,485**	—
Stocks-based compensation expense	**181,155**	331,485
Stock options exercised	**(152,547)**	—
Fair value allotted to 400,000 stock options *[note 1]*	**—**	85,000
Balance, end of year	**445,093**	416,485

14. 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:

	2006 %	2005 %
Statutory combined provincial and federal tax rate	**31.77**	31.12
Decrease in taxes recoverable from :		
Non-deductible expenses	**(6.00)**	(2.18)
Tax reduction based on fiscal loss	**(25.77)**	(28.94)
	—	—

14. INCOME TAXES [CONT'D]

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

	2006 **$**	2005 **$**
Future tax assets		
Net losses from operations carry forward	**1,200,000**	472,000
Non-deducted research and development expenses	**153,000**	73,000
Excess of tax basis of financing expenses over their carrying value	**80,000**	36,000
	1,433,000	581,000
Valuation allowance	**(1,352,400)**	(529,300)
Net future tax assets	**80,600**	51,700
Future Tax Liabilities		
Research and development tax credits subsequently taxable	**—**	2,400
Excess of carrying value of fixed assets over their tax basis	**9,600**	7,300
Excess of carrying value of deferred development costs over their tax basis	**71,000**	42,000
	80,600	51,700
Future Income Taxes	**—**	**—**

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** **Federal** **$**	**Provincial** **$**	**Expiration year**
2006	1,801,000	1,790,000	2026
2005	169,000	166,000	2015
2005	1,489,000	1,470,000	2014
2004	438,000	420,000	2013

14. INCOME TAXES [CONT'D]

The Company has available a balance of non-deducted research and development expenses that could serve to reduce taxable income in future years of $431,000 for federal and $598,000 for provincial.

The operating losses carried forward and the balance of non-deducted research and development expenses are accounted for as a future income taxes asset before the valuation allowance.

Finally, the Company disposes a $100,000 investment tax credit that can be used to reduce federal taxes in the future. This credit has not been accounted for on the balance sheet.

15. RELATED PARTY TRANSACTIONS

	2006 [365 days] $	2005 [395 days] $
Company under common control		
Development Expenses	—	11,500
Fixed Asset purchases	—	1,000
Companies controlled by shareholders and directors		
Administration Expenses	**196,954**	65,000

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

16. 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 fixed assets. The lease for the building was signed with a Company controlled by shareholders and directors of the Company for a total of $2,891,600 with a fixed expiration of 2020. These leases have expiration dates that vary between 2009 and 2020, and commit the Company to payments totaling $2,918,740. The minimum payments for the next five years are as follows:

	$
2007	241,600
2008	236,200
2009	227,400
2010	215,800
2011	209,800

b) Guarantee

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

17. Financial Instruments

a) Fair value

For certain financial instruments of the Company including cash and cash equivalents, accounts receivable, 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 of the transaction.

17. Financial Instruments [cont'd]

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.

18. Comparative Figures

Certain comparative figures were reclassified to conform to the presentation adopted for the current year.

INFORMATION FOR SHAREHOLDERS

Annual Meeting
The annual shareholders meeting will be held on **Wednesday, February 7, 2007** 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, 2006: 30,119,866

Website
For more information on the company, its technology and management team please visit: *www.powertechci.com*

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Pierre Gagnon
Vice-President – Operations, PowerTech
Director

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Chief Financial Officer

Yves Sicotte
Vice-President – Sales and Marketing

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Vice-President – Operations