

Interim Consolidated Financial Statements

**Power Tech Corporation Inc.**

December 31, 2007

**Power Tech Corporation Inc.**

**CONSOLIDATED BALANCE SHEETS**

As at	December 31, 2007	Unaudited September 30, 2007 [audited]
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	566,596	1,258,024
Accounts receivable	199,912	216,867
Tax credits receivable	64,000	64,000
Inventories	892,337	728,489
Prepaid expenses	50,763	64,293
<b>Total current assets</b>	<b>1,773,608</b>	<b>2,331,673</b>
<b>Property, plant and equipment</b>	<b>224,457</b>	<b>217,686</b>
<b>Intangible assets</b>	<b>132,661</b>	<b>135,293</b>
<b>Deferred charges</b>	<b>81,673</b>	<b>76,518</b>
	<b>2,212,399</b>	<b>2,761,170</b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	424,887	522,934
Deferred Revenues	100,193	101,025
Short term component of long-term debt	7,752	7,628
<b>Total current liabilities</b>	<b>532,832</b>	<b>631,587</b>
<b>Liability component of convertible debentures</b>	<b>2,414,481</b>	<b>2,743,081</b>
<b>Long-term debt</b>	<b>69,653</b>	<b>69,297</b>
<b>Shareholders' deficiency</b>		
Capital stock [note 4]	5,742,066	5,314,178
Warrants	2,089,788	2,089,788
Contributed surplus [note 5]	612,466	590,616
Equity component of convertible debentures	289,102	289,102
Deficit	(9,537,989)	(8,966,479)
	<b>(804,567)</b>	<b>(682,795)</b>
	<b>2,212,399</b>	<b>2,761,170</b>

*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,

Unaudited

	<b>2007</b>	<b>2006</b>
	\$	\$
<b>Deficit, beginning of period</b>	<b>(8,966,479)</b>	(4,601,694)
Net loss	<b>(571,510)</b>	(810,398)
<b>Deficit, end of period</b>	<b>(9,537,989)</b>	(5,412,092)

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**Power Tech Corporation Inc.**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND  
COMPREHENSIVE LOSS**

For the three month period ended December 31

Unaudited

	<b>2007</b>	<b>2006</b>
	\$	\$
Sales	<b>84,932</b>	35,938
Cost of goods sold <i>[note 8]</i>	<b>78,122</b>	28,679
Gross margin	<b>6,810</b>	7,259
<b>Expenses</b>		
Administration expenses	<b>255,401</b>	282,683
Selling and commercialization expenses	<b>158,271</b>	298,517
Development expenses	<b>25,329</b>	—
Interest expenses	<b>97,970</b>	112,648
Amortization of property, plant and equipment	<b>22,149</b>	21,275
Amortization of other assets		
Development costs	<b>32,172</b>	106,549
Patents	<b>2,632</b>	1,879
Financing costs	<b>4,555</b>	3,832
	<b>598,479</b>	827,383
Operating loss	<b>(591,669)</b>	(820,124)
Other revenues <i>[note 9]</i>	<b>20,159</b>	9,726
<b>Net and comprehensive loss</b>	<b>(571,510)</b>	(810,398)
<b>Basic and diluted loss per share</b>	<b>(0.02)</b>	(0.03)
<b>Weighted average number of shares outstanding during the period [in thousands]</b>	<b>36,663</b>	30,120

*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

Unaudited

	2007	2006
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss	(571,510)	(810,398)
Adjustments for:		
Amortization of property, plant and equipment	22,149	21,275
Amortization of other assets	39,359	112,260
Accrued interest on convertible debentures	94,733	95,176
Accrued interest on long-term debt	2,341	15,972
Stock-based compensation expense	21,850	66,873
	(391,078)	(498,842)
Net change in non-cash working capital items	(232,242)	(88,864)
<b>Cash flows used for operating activities</b>	<b>(623,320)</b>	<b>(587,706)</b>
<b>INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	(28,920)	(29,382)
Additions to intangible assets	—	(1,587)
Increase in deferred charges	(37,327)	(71,273)
<b>Cash flows used for investing activities</b>	<b>(66,247)</b>	<b>(102,242)</b>
<b>FINANCING ACTIVITIES</b>		
Reimbursement of long-term debt and cash flows used by financing activities	(1,861)	(1,745)
<b>Net decrease in cash and cash equivalents</b>	<b>(691,428)</b>	<b>(691,693)</b>
Cash and cash equivalents, beginning of period	1,258,024	1,278,686
<b>Cash and cash equivalents, end of period</b>	<b>566,596</b>	<b>586,993</b>
<b>Additional Information</b>		
Interest Paid	267	383
Issuance of shares to set off accumulated interests on convertible debenture [note 4]	427,888	—

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

**Power Tech Corporation Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2007

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, 2007. 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, 2007. 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 \$571,510 during the three month period ended December 31, 2007 and has an accumulated deficit of \$9,537,989 as at December 31, 2007. 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. 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  
FINANCIAL STATEMENTS**

December 31, 2007

Unaudited

**3. NEW ACCOUNTING POLICIES**

**ADOPTED IN 2008**

**Capital and Financial Instruments**

In the first quarter of 2008, the Company adopted three new Handbook sections issued by the Canadian Institute of Chartered Accountants (CICA).

Section 1535 “Capital Disclosures” establishes standards for disclosing information about an entity’s capital and how it is managed. These standards require an entity to disclose the following:

- its objectives, policies and processes for managing capital;
- summary quantitative data about what it manages as capital;
- whether during the period it complied with any externally imposed capital requirements to which it is subject;
- when the entity has not complied with such requirements, the consequences of such non-compliance.

Section 3862 “Financial Instruments – Disclosures” modifies the disclosure requirements for financial instruments that were included in Section 3861 “Financial Instruments – Disclosure and Presentation“. The new standards require entities to provide disclosures in their financial statements that enable users to evaluate:

- the significance of financial instruments for the entity’s financial position and performance;
- the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

Section 3863 “Financial Instruments – Presentation” carries forward the presentation requirements of the old Section 3861 “Financial Instruments – Disclosure and Presentation”, which remains unchanged.

The adoption of these guidelines did not have any material effect on the Company’s results, financial position or cash flows.

**Power Tech Corporation Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2007

Unaudited

**3. NEW ACCOUNTING POLICIES [Cont'd]**

**RECENTLY ISSUED**

**Inventories**

In March 2007, CICA issued the new section 3031 “inventories”, which will replace section 3030 “inventories”. The new section prescribes measurement of inventories at the lower of cost and net realizable value. It provides guidance on the determination of cost, allows the use of the retail method, prohibits use in the future of the last-in, first-out (LIFO) method, and requires reversal of previous write-downs when there is a subsequent increase in the value of inventories. It also requires greater disclosure regarding inventories and the cost of sales. The new standard will be effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company will adopt this new section in the first quarter of its 2009 fiscal year.

**4. CAPITAL STOCK**

During the quarter, the Company issued 973,552 common shares in payment of an amount of \$427,888 in accumulated interest on the convertible debenture issued on August 2, 2005 to SIPAR Inc. This amount covers the period from August 2, 2005 to August 2, 2007. Regarding the terms of the debenture, the price of shares issued was determined according to the weighted average price of the Company’s common shares traded during the 20-day period preceding the interest payment date of August 2, 2007, minus the maximum discount of 20% permitted by the TSX Venture Exchange, resulting in a conversion price of \$0.4395.

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED  
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Unaudited

**5. CONTRIBUTED SURPLUS**

	December 31, 2007 \$	September 30, 2007 \$
<b>Balance, beginning of period</b>	<b>590,616</b>	445,093
Stock-based compensation expense	<b>21,850</b>	145,523
<b>Balance, end of period</b>	<b>612,466</b>	590,616

**Stock options**

During the quarter, the Company granted 113,000 stock options under the stock option plan. These options were valued at an amount of \$28,089.

	December 31, [3 months] 2007		September 30, [12 months] 2007	
	Options	Weighted- average exercise price \$	Options	Weighted- average exercise price \$
<b>Outstanding, beginning of period</b>	<b>1,702,900</b>	<b>0.56</b>	1,704,550	0.56
Granted under the plan	<b>113,000</b>	<b>0.45</b>	215,100	0.55
Cancelled	—	—	(216,750)	0.55
<b>Outstanding, end of period</b>	<b>1,815,900</b>	<b>0.55</b>	1,702,900	0.56

**Power Tech Corporation Inc.**

**NOTES TO CONSOLIDATED  
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December 31, 2007

Unaudited

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

**Stock options [Cont'd]**

	December 31, [3 months] <b>2007</b>	September 30, [12 months] <b>2007</b>		
	Options	Weighted- average exercise price \$	Options	Weighted- average exercise price \$
<b>Exercisable options, end of period</b>	<b>1,229,215</b>	<b>0.54</b>	1,195,210	0.54
<b>Weighted-average four value of options granted during the year</b>		<b>0.25</b>		0.32

Date of grant	Maturity date	Exercise price \$	December 31, <b>2007</b>	
			Outstanding options	Options exercisable
February 11, 2005	February 11, 2010	0.50	1,125,000	915,000
May 2, 2005	May 2, 2010	0.85	2,500	2,000
September 15, 2005	September 15, 2010	0.72	94,500	66,150
March 15, 2006	March 15, 2011	0.72	21,000	10,500
April 5, 2006	April 5, 2011	0.76	203,500	107,800
August 25, 2006	August 25, 2011	0.60	47,550	24,765
October 15, 2006	October 15, 2011	0.71	15,000	3,000
December 5, 2006	December 5, 2011	0.53	100,000	100,000
February 21, 2007	February 21, 2012	0.60	14,850	—
May 4, 2007	May 4, 2012	0.60	50,000	—
August 20, 2007	August 20, 2012	0.45	29,000	—
December 19, 2007	December 19, 2012	0.45	113,000	—
			<b>1,815,900</b>	<b>1,229,215</b>

**Power Tech Corporation Inc.**

**NOTES TO CONSOLIDATED  
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Unaudited

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

**Stock options [Cont'd]**

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

	<b>December 31, 2007</b>
Expected dividend yield	<b>None</b>
Expected volatility	<b>87%</b>
Risk-free interest rate	<b>3.88%</b>
Expected life in years	<b>4</b>

**6. MANAGEMENT OF CAPITAL**

The Company maintains a capital level that enables it to meet the following objectives:

- To secure a sufficient quantity of capital to fulfill the Company's business plan, including the commercialization of its products.
- To give shareholders sustained growth of shareholder value by minimizing the loss per share and ultimately maximizing earnings per share.

In its capital structure, the Company considers its stock option plan for key employees, officers and suppliers. The Company is not subject to any capital requirements imposed by a regulator.

In the first few weeks of 2008, the Company has initiated a plan to raise additional capital.

The Company's loss per share was limited to \$0.02 for the quarter versus \$0.03 for the same period last year.

**Power Tech Corporation Inc.**

**NOTES TO CONSOLIDATED  
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**7. FINANCIAL INSTRUMENTS**

**Interest rate risk**

In the normal course of business, the Company is exposed to interest rate fluctuation, which arises from the degree of volatility of interest rates, regarding to convertible debentures and long-term debt. The Company does not use any derivative financial instruments to reduce its exposure to interest rate risk.

**Credit risk**

In the normal course of business, the Company reviews new customers' credit history and conducts regular reviews of its existing customers' financial positions. Provisions are established and maintained with regard to potential losses. As at December 31, 2007, 2 clients represent 100 % of the accounts receivable [three clients represented 95.1% as at September 30, 2007].

Over the past years, the Company has not suffered any material losses related to credit risk.

**Currency risk**

In the normal course of business, the Company is exposed to currency risk related to sales concluded in foreign currency. The Company does not use any derivative financial instruments to reduce its exposure to currency risk.

**8. COST OF GOODS SOLD**

	<b>2007</b>	<b>2006</b>
	\$	\$
Direct Costs	<b>58,088</b>	21,041
Indirect Costs	<b>20,034</b>	7,638
	<b>78,122</b>	28,679

**Power Tech Corporation Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2007

Unaudited

**9. OTHER REVENUES**

	<b>2007</b>	<b>2006</b>
	\$	\$
Interest	<b>11,547</b>	4,913
Rental	<b>8,085</b>	4,813
Foreign exchange gain	<b>527</b>	—
	<b>20,159</b>	9,726

**10. RELATED PARTY TRANSACTIONS**

	<b>2007</b>	<b>2006</b>
	\$	\$
<b>Companies controlled by shareholders and directors</b>		
Professional Fees	—	15,000
Rent	<b>63,369</b>	58,695

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