



## **PRESIDENT'S MESSAGE**

### **ACCELERATION OF SALES THROUGH AN EXPANDING PRODUCT LINE AND DISTRIBUTION NETWORK**

Powertech overcame during this most recent quarter the challenges set forth by the longer than expected technical integration of its technology to the NPK Construction Equipment product line. More specifically, it was able to work closely with this customer, to adapt its products to the market's specific needs and to finally start ramping up sales. Following the first deliveries in the third quarter of the NPK personalized series 2000 PicBucket<sup>®</sup> we are now market ready and garnering an order book for the series 3000 (NPK) PicBucket<sup>®</sup> and are currently field testing our own brand name series 5000 PicBucket<sup>®</sup> which aim to equip large 20 to 30 tons excavators, one of the most significant market segments targeted by PowerTech. Initial sales for both of these product lines are expected for the fall of 2008 and will complement sales from already existing products.

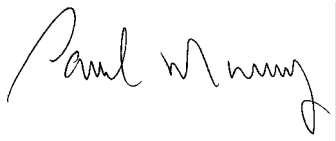
In combination to this expansion of its product line, PowerTech has been very active in the development of its sales and distribution network. After signing last February a second OEM agreement with Montabert SAS covering Europe, Africa, the Middle East, Australia and New Zealand, Powertech completed during the third quarter its Canadian distribution network by signing two new partnerships with Hewitt Equipment and Atlantic Tractors & Equipment Ltd. These agreements will add 22 dealerships to Powertech's network providing coast to coast coverage through 90 points of sales. The increased visibility provided by OEM agreements and the expansion of our distribution network are contributing to increase the acceptance and recognition by the market of our technology which in turn should facilitate future sales. As an example, we are seeing more and more calls for tender which include the unique specifications that only Powertech's technology can provide putting us into a very enviable position going forward.

In parallel to sales through third parties, Powertech has been very active in direct sales which provide for higher margins as well as valuable input directly from the end users. One such market, the equipment rental market is showing very promising signs, as we are currently experiencing repeat business from existing customers. During the quarter, Powertech also made a significant breakthrough in the military market by delivering five units to the Canadian Armed Forces. This initial \$300,000 order provides for an option to purchase 15 additional units for an additional \$925,000 which could materialize into sales over the next few quarters. More so, this initial order has enabled the Company to place the PicBucket<sup>®</sup> on the approved construction equipment purchase list for all 26 member countries of the North Atlantic Treaty Organization.

Going forward, strengthened by our experience with NPK Construction Equipment, we expect a quicker and more optimal rollout of our technology through our new OEM partner, Montabert SAS which should eventually translate into additional progression of our sales. We also intend to explore the potential for other strategic partnerships in areas of the world which are not covered by current OEM agreements or a worldwide type of agreement directly with a large established equipment manufacturer.

With a strengthened balance sheet reflecting improving cash flow from operations and a private placement for gross proceeds of \$890,000 realized shortly after the end of the quarter, we intend to continue investing in cost reduction initiatives including a more sophisticated enterprise resources planning system (ERP) that will allow us to respond adequately to the expected increase in production and sales.

In sum, PowerTech has completed several structuring achievements in recent months, including the expansion of its sales and distribution network in addition to reaching significant commercial milestones. The Company shortly expects to sell its first units of the series 5000 PicBucket® which aims to equip one of its most significant target markets. Current backlog is healthy and growth in revenues is anticipated over the course of the coming quarters. All these factors considered together make me feel very optimistic about our future.

A handwritten signature in cursive script, appearing to read "Carol Murray", followed by a vertical yellow line.

Carol Murray  
President and Chief Executive Officer  
PowerTech Corporation



## Management's Discussion and Analysis

Third quarter ended June 30, 2008

The following Management Discussion and Analysis (MD&A) covers the results of operations and consolidated financial results of PowerTech Corporation. ("PowerTech" or "the Company").

The following MD&A should be read in conjunction with the Company's audited consolidated financial statements and related note disclosure for the year ended September 30, 2007, and the Company's unaudited interim consolidated financial statements for the quarter ended June 30, 2008, which have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and depict values that are in Canadian currency unless otherwise noted.

Additional information relating to the Company can be found on the Company's website, [www.powertechci.com](http://www.powertechci.com) and/or on SEDAR at [www.sedar.com](http://www.sedar.com).

### ***Forward-looking Statements***

*This report contains forward-looking statements that are subject to various risks and uncertainties. The Company's actual results could differ materially from those anticipated in such forward-looking statements as a result of numerous factors that may be beyond the Company's control. Forward-looking statements are based on the expectations and opinions of the Company's management on the date the statements are made, and the Company assumes no obligation to update forward-looking statements should circumstances in management's expectations or opinions change.*

### **Description of Business**

PowerTech is the only company in the world that manufactures and commercializes percussion technology with interchangeable tools and accessories for the construction, demolition and military industries.

PowerTech's percussion technology is a technological breakthrough that combines the power of a hydraulic hammer with the stripping force and manoeuvrability of a conventional bucket. Powertech's products are marketed under the PicBucket® and PicHammer® names as well as under world renowned private label brands thru OEM agreements with large manufacturers.

The trademarks PicBucket(R), PicHammer(R) and the Powertech logo are registered trademarks of Powertech Canada Inc.

The company owns the intellectual property behind the technology used in its principal product, the PicBucket(R). The PicBucket(R) 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.

### **General Overview and Outlook**

In regards to its agreement with NPK Construction Equipment, following the first deliveries in the third quarter of the NPK personalized series 2000 PicBucket<sup>®</sup>, Powertech is currently garnering an order book for the series 3000 PicBucket<sup>®</sup> (NPK) and expects to record its first such sales in the fourth quarter. In addition, the field tests for our new brand name series 5000 PicBucket<sup>®</sup> are expected to be completed shortly which should allow thereafter, for quick delivery of the first units given contractual commitments in regards to minimum orders and the expression of interest from other customers within the Company's sales and distribution network.

Powertech also intends to complete over the next few months the final details in regards to the roll out of its agreement with Montabert SAS and expects to be able to ship its first units to this customer within the next few quarters. Finally, following the sale of five Military-ready Series 3000 PicBucket<sup>®</sup> units to the Canadian Armed Forces, Powertech intends to actively solicit a follow up order for the 15 units additional units covered by an option held by the purchaser. The sale of these 15 additional units over the course of the next year could represent close to one million dollars of additional sales.

As more sales opportunities are added to the backlog, revenue growth is expected and should become more predictable. Also, the company expects to be in a position to further benefit from growing economies of scale which should translate into an expansion of its gross margins.

**Selected Financial Information**  
**For the three month period ended June 30,**

	<b>2008</b>	2007
	<b>\$</b>	\$
Revenues	<b>542,005</b>	125,977
Net Loss	<b>(563,663)</b>	(660,495)
Basic and Diluted loss per share	<b>(0.02)</b>	(0.02)
Total Assets	<b>2,323,674</b>	3,751,331
Total long term liabilities	<b>3,110,328</b>	2,593,573
Inventories	<b>1,101,799</b>	1,207,284
Cash on Hand	<b>158,959</b>	1,728,275

**Results of Operations**

The Company continued to focus on commercialization and pursuing additional OEM agreements to broaden the footprint of our product offering and delivering on partnerships previously signed.

*Revenues*

Revenues for the second quarter were \$542,005 from the sale of PicBuckets and their related tools and accessories compared to \$125,977 for the third quarter of fiscal 2007. Revenues increased over last year due the continued growth of sales through distributors and delivery on the Canadian Army contract in the quarter. For the nine-month period ended June 30, 2008 sales were \$1,019,091 versus \$548,566 last year.

*Gross Margin*

Gross margin was 31.1% or \$168,633 for the three-month period ended June 30, 2008, compared to 13.0% or \$16,377 for the same period last year. Direct costs of goods sold were 53.0% of sales for the current period versus 64.6% for the same period last year. Increase in gross margins was due to production efficiencies and direct sales which provide better margins. Indirect costs included in costs of goods sold are predominantly fixed and made of operation salaries and allocated overhead costs. These costs are expected to remain stable as production volumes rise. For the nine-month period, gross margin was 23.3% in the current period versus 18.7% last year; the increase is due to production efficiencies and direct sales to end users which provide better margins.

### *Administrative expenses*

For the three-month period ended June 30, 2008, administrative expenses totaled \$300,604 versus \$295,463 in 2007, increase in current period was mainly due to stock based compensation. Administrative expenses were \$838,438 for the nine-month period versus \$954,266 for the same period due to reduction of overhead costs.

### *Selling and Commercialization Expenses*

Selling and commercialization expenses totaled \$174,019 for the third quarter versus \$254,183 for the same period last year. The reduction is due to sales are now made through dealer networks rather than a direct salesforce. For the nine-month period ended June 30, 2008, expenses were \$505,414 versus \$884,103. The decrease in the current period is due to previously announced changes to our sales strategy resulting in lower costs in the current period.

### *Development Expenses*

Prior to March 31, 2007 all development expenses were capitalized as a deferred charge and periodically evaluated. Beginning in the third quarter of fiscal year 2007, the Company expensed most of developments costs as they are incurred. Development costs for the three and nine month period were \$68,264 and \$103,444 respectively. Most of these costs are for the development of the series 5000 PicBucket®. Last year's development costs were \$25,742 for the three and nine month period.

### *Financial expenses*

Financial expenses totaled \$112,045 for the third quarter compared to \$108,829 for the same period last year. The financial expenses are predominantly relating to the two outstanding convertible debentures. On March 17, 2008, the Company issued a debenture for a nominal amount of \$400,000. For the nine-month period financial expenses were \$328,486 and \$343,519 for the same period last year.

In addition, as a result of adopting the new accounting standards of section 3855 – Financial Instruments, the amortization of the deferred financing costs under the effective interest rate method is now recorded as a financial expense.

### *Amortization of property, plant and equipment*

Amortization of the company's property, plant and equipment totaled \$19,616 for the three months period ended June 30, 2008 compared to \$21,416 for the same period last year. There were little changes to property, plant and equipment.

### *Amortization of other Assets*

The amortization of other assets, comprised of development costs and patents, totaled \$66,960 for the third quarter of the 2008 fiscal year versus \$23,189 for the same period last year. Most of the capitalized development costs that were previously capitalized have been fully amortized. Similarly for the nine-month period ended June 30, 2008 amortization costs were \$154,069 for the current period versus \$317,224 in 2007.

### *Other Revenues and Expenses*

Net other revenues were \$9,212 for the quarter of 2008, compared to \$25,872 for the same period last year. This amount is mostly made up of rental revenue in the quarter (see note 7 for additional information). For the nine-month period other revenues were \$67,384 versus \$38,613 in 2007.

### *Net Loss*

The net loss for the third quarter is \$563,663 compared to \$686,573 for the same period last year representing a decrease of 18%. Revenues increased over the previous year offset by increase in development costs and stock based compensation expense. Net loss for the nine-month period ended June 30 2008 was \$1,688,261 and \$2,448,062 for last year.

### **Summary of Quarterly Results**

<b>Quarter ended</b>	<b>Revenues</b>	<b>Net Loss</b>	<b>Net loss per share</b>	
			<b>Basic</b>	<b>Diluted</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
June 30, 2008	542,005	(563,663)	(0.02)	(0.02)
March 31, 2008	392,154	(553,088)	(0.01)	(0.01)
December 31, 2007	84,932	(571,510)	(0.02)	(0.02)
September 30, 2007	77,254	(1,354,759)	(0.03)	(0.03)
June 30, 2007	125,977	(686,573)	(0.02)	(0.02)
March 31, 2007	386,651	(951,091)	(0.03)	(0.03)
December 31, 2006	35,938	(810,398)	(0.03)	(0.03)
September 30, 2006	48,770	(707,197)	(0.02)	(0.02)

As of June 30, the Company's capital structure was as follows:

	<b>2008</b>	<b>2007</b>
Common shares outstanding	<b>36,990,708</b>	36,017,156
Stock options outstanding	<b>2,241,100</b>	1,708,900
Share warrants outstanding	<b>4,488,488</b>	9,325,488
Fully diluted shares outstanding	<b>43,720,296</b>	47,051,544

### *Summary of Capital Structure*

At the end of the quarter, PowerTech has 36,990,708 outstanding common shares and an additional 2,241,100 stock options and 4,488,488 warrants outstanding. Therefore, the total number of fully diluted shares outstanding is 43,720,296. Subsequent to quarter-end, 722,114 warrants expired. However, these options and warrants were not included in the computation of diluted loss per share because the effect would be anti-dilutive.

### **Financial Position, Liquidity and Capital Resources**

#### *Financial position*

As at June 30, 2008, the Company had cash and cash equivalents of \$158,959. This compared with the cash balance of \$1,258,024 as of September 30, 2007.

#### *Operating Activities*

Cash flows used in operating activities before changes in non-cash working capital items for the quarter ended June 30, 2008 was \$320,256, compared with a \$514,504 for the same period last year. This was mainly due to the loss for the period of \$563,663, compared with the loss of \$686,573 for the same period last year. The non-cash stock-based compensation expenses was \$41,753 compared with \$23,415 a year ago. Changes in non-cash working capital items for the quarter ended June 30, 2008 reflected an increase in cash of \$63,493 compared with a decrease of \$60,180 for the same period last year.

Cash flows used for operating activities was \$256,763, compared with \$574,684 for last year. For the nine-month period ended June 30, 2008, cash flows used for operating activities were \$1,255,194 versus \$1,711,208 for the same period last year.

#### *Investing Activities*

For the quarter ended June 30, 2008, \$19,641 was spent on property, plant and equipment, the majority of which was associated with implementing a company-wide enterprise resource planning software (ERP). This compared with property, plant and equipment purchases of \$5,954 for the quarter ended June 30, 2007. In addition, the Company incurred \$76,361 as deferred charges during the quarter compare to \$ 34,835 last year. The Company is currently

developing the series 5000 of the Picbucket®. For the nine-month period ended June 30, 2008, investing activities were \$99,216 versus \$40,380 for 2007.

### *Financing Activities*

There were no financing activities for the quarter ended June 30, 2008 compared to \$2,242,456 last year due to the issue of units.

### *Increase/decrease in cash equivalent*

For the quarter ended June 30, 2008, the decrease in cash and cash equivalents was \$355,979 (as compared to an increase of \$1,627,392 a year ago), mainly as a result of units issued last year of \$3,243,510.

On July 16, 2008, the Company completed a non-brokered private placement for proceeds of \$890,000 and issued 2,225,000 units of the Company at a price of \$0.40, each unit comprise of one common share and one warrant entitling the holder to purchase one common share of the Company at a price of \$0.50 for a period of 24 months.

Concurrently, the Company converted \$77,680 of accrued interest to July 9, 2008 in regards to the debt held by Fier Cap Diamant. The terms are consistent with the private placement and will be converted at a price of \$0.40 and include one common share warrant at an exercise price of \$0.50 which translates into the issuance of 194,200 shares and 194,200 warrants.

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".

## **New Accounting Policies**

### Adopted in 2008

#### *Capital and Financial Instruments*

In the first quarter of 2008, we 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 unchanged the presentation requirements of the old Section 3861 “Financial Instruments – Disclosure and Presentation”.

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

### 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. We will adopt this new section in the first quarter of our 2009 fiscal year.

#### *Goodwill and Intangible Assets*

In February 2008, the CICA issued a new Section 3064 “Goodwill and Intangible Assets” replacing 3062 “Goodwill and Intangible Assets” as well as Section 3450 “Research and Development Costs”.

The new Section 3064 states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria. Section 3064 also provides further information on the recognition of internally generated intangible assets, including research and development costs.

As for subsequent measurement of intangible assets, goodwill, and disclosure, Section 3064 carries forward the requirements of the old Section 3062.

The new Section applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. The Company is currently evaluating the effect of this new standard on results, financial position and cash flows.

#### *International financial reporting standards*

In February 2008, the Accounting Standards Board confirmed the date of changeover from Canadian Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS). Canadian publicly accountable enterprises must adopt IFRS for their interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is currently developing its IFRS conversion plan and evaluating the effect of the new standards on its consolidated financial statements.

### **Related Party Transactions**

#### *Commitment*

The building lease agreement is with 6316123 Canada Inc., a company which is 20% owned by two officers which are also shareholders of PowerTech Corporation Inc. For the quarter ended June 30, 2008 a total of \$69,099 was paid by PowerTech to this company versus \$57,334 for the quarter ended June 30, 2007. This lease occurred in the normal course of business and is valued at the fair market value of a lease of this kind.

In addition, the company has guaranteed, to a maximum of 25%, the mortgage loan contracted with 6316123 Canada Inc. for the above mentioned building totalling \$1,200,000. This guarantee was evaluated at \$12,300, under section 3855 of CICA handbook, and accounted for as accounts payable and accrued liabilities.

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

### **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 note 4 of the audited annual financial statements as of September 30, 2007 for a description of significant accounting policies. More precisely, the management of PowerTech 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 \$563,663 for the quarter and \$1,688,261 during the nine-month period ended June 30, 2008 and has an accumulated deficit of \$10,654,740 as at June 30, 2008. 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 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.

#### **Evaluation of disclosure controls**

The Chief Executive Officer and Chief Financial Officer of the Company have evaluated the effectiveness of the Company's disclosure controls and procedures as of the quarter ended June 30, 2008 and have concluded that the Company's disclosure controls and procedures provide reasonable assurance that material information relating to the Company, including its consolidated subsidiary, was made known to them and reported as required, particularly during the period in which the annual filings were being prepared. Management has made no material changes to the Company's internal controls over financial reporting during the Company's most recent interim period. Due to the size of the company and limited staff, there are limitations to completely segregating a number of duties that are part of a typical control environment.

#### 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.

### 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.

As of June 30, 2008, management did not perform an impairment test because no events occur supporting such test.

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

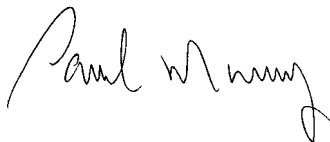
The company has adopted a stock based compensation plan to use as a tool in effectively remunerating employees, directors, consultants and suppliers of the company.

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 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.

Management has to consider different assumptions that may affect the value of stock options. The company based its assumptions on historical data, industry data and other sources of available information.

### Financial instruments

As discussed previously, the company has applied new standards issued by CICA regarding financial instruments. The company has used different financial instruments since its inception. The evaluation of those financial instruments requires assumptions established by management using careful judgment.



Carol Murray  
President and Chief Executive Officer



Nick Cristiano  
Chief Financial Officer

Terrebonne, Québec, August 28, 2008