

Consolidated Financial Statements

Power Tech Corporation Inc.

September 30, 2008 and 2007

AUDITORS' 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, 2008 and 2007 and the consolidated statements of loss and comprehensive 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, 2008 and 2007 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 14, 2008
[December 23, 2008 for the note 22].

Chartered Accountants

Power Tech Corporation Inc.

CONSOLIDATED BALANCE SHEETS [note 2]

As at September 30

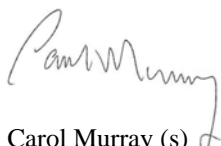
	2008 \$	2007 \$
ASSETS		
Current assets		
Cash and cash equivalents	370,821	1,258,024
Accounts receivable [note 6]	377,534	216,867
Tax credits receivable	70,000	64,000
Inventories [note 7]	615,854	728,489
Prepaid expenses	20,354	64,293
Total current assets	1,454,563	2,331,673
Property, plant and equipment [note 8]	212,175	217,686
Intangible assets [note 9]	136,970	135,293
Deferred charges [note 10]	31,147	76,518
	1,834,855	2,761,170
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities		
Accounts payable and accrued liabilities	799,390	522,934
Deferred revenues	131,928	101,025
Short-term component of debenture [note 11]	428,763	—
Short-term component of long-term debt [note 12]	17,751	7,628
Total current liabilities	1,377,832	631,587
Debenture and liability component of convertible debentures [note 11]	2,658,628	2,743,081
Long-term debt [note 12]	67,404	69,297
Shareholders' deficiency		
Capital stock [note 13]	6,338,641	5,314,178
Warrants [note 13]	1,306,096	2,089,788
Contributed surplus [note 13]	1,830,160	590,616
Equity component of convertible debentures [note 11]	289,102	289,102
Deficit	(12,033,008)	(8,966,479)
	(2,269,009)	(682,795)
	1,834,855	

Commitments [note 19]

Subsequent event [note 22]

See accompanying notes

On behalf of the Board


Carol Murray (s)
Director


Dany Girard (s)
Director

Power Tech Corporation Inc.

CONSOLIDATED STATEMENTS OF DEFICIT

For the years ended September 30

	2008	2007
	\$	\$
Deficit, beginning of year		
Previous balance	(8,966,479)	(4,601,694)
Restatement of previous year <i>[note 5]</i>	—	(68,119)
Restated balance	(8,966,479)	(4,669,813)
Change in accounting policies <i>[note 3]</i>	—	(12,300)
Net loss	(3,066,529)	(3,790,519)
Common share and equity instrument issue costs <i>[note 13]</i>	—	(493,847)
Deficit, end of year	(12,033,008)	(8,966,479)

See accompanying notes

Power Tech Corporation Inc.

**CONSOLIDATED STATEMENTS OF LOSS
AND COMPREHENSIVE LOSS**

For the years ended September 30

	2008	2007
	\$	\$
Sales	<u>1,455,279</u>	625,820
Cost of goods sold		
Direct costs	904,146	351,313
Indirect costs	79,842	211,931
	<u>983,988</u>	563,244
	<u>471,291</u>	62,576
Expenses <i>[note 16]</i>		
Administration and general expenses	1,364,813	1,241,081
Selling and commercialization expenses	1,149,304	1,737,060
Write-off and provision for obsolete inventories	287,452	—
Development expenses	113,027	44,872
Interest on debenture and financial expenses	430,877	448,104
Amortization of property, plant and equipment	82,892	84,612
Amortization of other assets		
Development costs	176,032	334,154
Patents	10,807	9,945
	<u>3,615,204</u>	3,899,828
Operating loss	<u>(3,143,913)</u>	(3,837,252)
Other Revenues <i>[note 17]</i>	<u>77,384</u>	46,733
Net and comprehensive loss	<u>(3,066,529)</u>	(3,790,519)
Basic and diluted loss per share	(0.08)	(0.12)
Weighted average number of shares outstanding during the year [in thousands]	<u>37,424</u>	32,901

See accompanying notes

Power Tech Corporation Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended September 30

	2008	2007
	\$	\$
OPERATING ACTIVITIES		
Net loss	(3,066,529)	(3,790,519)
Adjustments for:		
Write-off and provision for obsolete inventories	287,452	—
Contribution – Canada Economic Development	(20,067)	3,482
Loss (gain) on disposal of property, plant and equipment	(4,304)	6,895
Amortization of property, plant and equipment	82,892	84,612
Amortization of other assets	210,017	362,318
Accumulated interest on convertible debentures	407,700	380,704
Accumulated interest on long term debt	11,209	41,788
Stock-based compensation expense	84,747	145,523
	(2,006,883)	(2,765,197)
Net change in non-cash working capital items	90,114	610,733
Cash flows used for operating activities	(1,916,769)	(2,154,464)
INVESTING ACTIVITIES		
Repayment of advances to a shareholder	—	5,958
Additions to property, plant and equipment	(84,077)	(50,725)
Proceeds from disposal of property, plant and equipment	11,000	—
Additions to intangible assets	(12,484)	(57,923)
Increase in deferred charges	(183,461)	(180,872)
Cash flows used for investing activities	(269,022)	(283,562)

Power Tech Corporation Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS [Cont'd]

For the years ended September 30

	2008	2007
	\$	\$
FINANCING ACTIVITIES		
Increase in deferred financing costs	(8,500)	(14,456)
Issuance of a debenture	400,000	—
Increase in long-term debt	34,258	204,722
Reimbursement of long-term debt	(17,170)	(655,789)
Issuance of units	890,000	3,243,509
Equity instrument issue costs	—	(360,622)
Cash flows provided by financing activities	1,298,588	2,417,364
Net decrease in cash and cash equivalents	(887,203)	(20,662)
Cash and cash equivalents, beginning of year	1,258,024	1,278,686
Cash and cash equivalents, end of year	370,821	1,258,024
Additional Informations		
Interest Paid	504	49,900
Acquisition of property, plant and equipment from a shareholder accounted for as a reduction of advances to a shareholder	—	13,550
Non-cash tax credits receivable accounted for as a reduction of deferred charges	52,800	50,000
Issuance of shares to settle accumulated interests of a convertible debenture	427,888	—
Issuance of units to settle accumulated interest of a convertible debenture	77,680	—

See accompanying notes

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2008 and 2007

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

Power Tech Corporation Inc. (“Power Tech” or the “Company”) was incorporated under Part IA of the *Québec Companies’ Act* and specializes in developing, integrating and commercializing leading-edge technologies allowing substantial performance, productivity and functionality improvements in excavation equipment and systems.

All assets of the Company are located in Canada.

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 use of these principles could be inappropriate since, as at September 30, 2008, there was significant uncertainty as to the Company’s ability to continue as a going concern without securing additional financing.

The Company incurred a net loss of \$3,066,529 during the current year [\$3,790,519 in 2007] and has an accumulated deficit of \$12,033,008 as at September 30, 2008 [\$8,966,479 in 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 various factors, including general economic conditions, technological advancements, market acceptance of its products and competition. There can be no assurance that the Company will generate short and long-term capital under terms and conditions satisfactory to the Company.

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**

September 30, 2008 and 2007

3. NEW ACCOUNTING POLICIES

a) Adopted in 2008 and in 2007

2008

Capital and Financial Instruments

On October 1, 2007, 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.

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2008 and 2007

3. NEW ACCOUNTING POLICIES [Cont'd]

a) Adopted in 2008 and in 2007 [Cont'd]

2008 [Cont'd]

Capital and Financial Instruments [Cont'd]

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.

With the exception of the disclosures required under these sections previously described, 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**

September 30, 2008 and 2007

3. NEW ACCOUNTING POLICIES [Cont'd]

a) Adopted in 2008 and in 2007 [Cont'd]

2007

Financial instruments, hedges and comprehensive income

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

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

The Company has implemented the following classifications:

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

The Company now records deferred financing costs, amortized according to the effective interest rate method, as a reduction of the debenture and liability component of convertible debentures and not as deferred charges in the Company's long term assets.

In addition, the Company evaluated the guarantee disclosed in note 19b) which resulted in an increase of \$12,300 of the opening deficit. This guarantee will be marked to market and each variation recorded through net income at the end of each period.

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2008 and 2007

3. NEW ACCOUNTING POLICIES [Cont'd]

2007 [Cont'd]

Financial instruments, hedges and comprehensive income [Cont'd]

With the exception of the reclassification of deferred financing costs and the evaluation of the guarantee described above, the adoption of the recommendations had no effect on the Company's financial statements.

b) 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 and is currently evaluating the effect of this new standard on results, financial position and cash flows.

Goodwill and Intangible Assets

In February 2008, the CICA issued a new Section 3064, "Goodwill and Intangible Assets", replacing Section 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.

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2008 and 2007

3. NEW ACCOUNTING POLICIES [Cont'd]

2007 [Cont'd]

b) Recently issued [Cont'd]

Goodwill and Intangible Assets [Cont'd]

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.

4. 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 Company's consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. In preparing these consolidated financial statements, management is required to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. In management's opinion, the consolidated 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.

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2008 and 2007

4. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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.

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	4-5 years

Intangible Assets

Intangible assets consist of patents and are recorded at cost and are amortized over their useful lives on a straight-line basis over periods ranging from 14 to 20 years.

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2008 and 2007

4. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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.

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.

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2008 and 2007

4. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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 stock 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.

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 administration and general expenses 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.

Deferred revenues consists of customer deposits.

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2008 and 2007

4. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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.

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 average rates of exchange prevailing during the year. Any resulting exchange gains or losses are included in the statement of loss.

5. RESTATEMENT OF PREVIOUS YEAR

During the previous year, the Company noted that the interest expense on the convertible debenture issued to SPAR inc. [note 11] had been understated. Accordingly, a correction was made with retroactive restatement of the comparative financial statements for the previous year. This restatement led to a \$68,119 increase in the opening deficit as at October 1, 2006. This restatement had no impact on the total cash flows from operating, investing and financing activities.

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2008 and 2007

6. ACCOUNTS RECEIVABLE

	2008	2007
	\$	\$
Customers	295,431	155,518
Commodity taxes receivable	82,103	48,351
Government grant receivable	—	12,998
	377,534	216,867

7. INVENTORIES

	2008	2007
	\$	\$
Raw materials	24,439	18,779
Work in progress	489,382	497,441
Finished goods	102,033	212,269
	615,854	728,489

8. PROPERTY, PLANT AND EQUIPMENT

	2008		2007	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$	\$	\$
Moulds	62,762	22,703	48,048	10,845
Machinery and equipment	30,119	18,117	28,800	12,137
Office furniture	134,398	73,297	134,398	46,668
Computer hardware	74,433	59,209	66,731	47,748
Computer software	73,085	21,095	12,744	12,289
Automotive equipment	—	—	30,131	19,250
Leasehold improvements	66,389	34,590	66,389	20,618
	441,186	229,011	387,241	169,555
Accumulated amortization	229,011		169,555	
	212,175		217,686	

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2008 and 2007

9. INTANGIBLE ASSETS

	2008	2007
	\$	\$
Patents [net of government assistance of nil in 2008 and \$8,689 in 2007]	174,238	161,754
Accumulated amortization	37,268	26,461
	136,970	135,293

10. DEFERRED CHARGES

	2008	2007
	\$	\$
Developments costs [net of research and development tax credits of \$52,800 in 2008 and \$50,000 in 2007]	816,711	686,050
Accumulated amortization	785,564	609,532
	31,147	76,518

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2008 and 2007

**11. DEBENTURE AND LIABILITY COMPONENT OF CONVERTIBLE
DEBENTURES**

	2008	2007
	\$	\$

Debenture, bearing interest at 14%, compounded monthly and maturing at the earliest of the following:

- i) March 20, 2009.
- ii) Upon closing an equity financing for a minimum of \$1.5M.

Interests are payable at maturity date and a premium of 3% on nominal amount is payable if the Company closes an equity financing.

	400,000	—
Accumulated interest	28,763	—
Carry forward	428,763	—

Convertible debenture, bearing interest at 12.95% compounded semi-annually [effective interest rate of 13.88%], maturing on August 2, 2010. The interest from August 2, 2005 to August 2, 2007 was converted into shares of the Company on October 31, 2007 [note 13]. 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:

- (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.

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2008 and 2007

**11. DEBENTURE AND LIABILITY COMPONENT OF CONVERTIBLE
DEBENTURES**

	2008	2007
	\$	\$
Carried forward	<u>428,763</u>	<u>—</u>
(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	<u>(113,659)</u>	(113,659)
	1,386,341	1,386,341
Accumulated interest	<u>281,916</u>	483,604
	<u>1,668,257</u>	<u>1,869,945</u>

Convertible debenture, bearing interest at 11% compounded annually [effective interest rate of 11.98%], maturing on September 29, 2011. Interest is payable every February 28 and September 29 of each year beginning on February 28, 2008. The interest from September 29, 2006 to September 29, 2007 is repayable in eight equal instalments of \$13,750 every six months beginning on February 28, 2008. Interest payable on February 28, 2008 amounting to \$77,680 was converted into units of the Company [note 13]. In addition, interest payable on September 29, 2008 will be converted into shares of the Company [note 22]. The debenture is convertible as per the following terms and conditions:

Carry forward	<u>2,097,020</u>	<u>1,869,945</u>
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Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2008 and 2007

**11. DEBENTURE AND LIABILITY COMPONENT OF CONVERTIBLE
DEBENTURES [Cont'd]**

	2008	2007
	\$	\$
Carried forward	<u>2,097,020</u>	<u>1,869,945</u>
(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	1,000,000
Equity component of convertible debentures	<u>(175,443)</u>	(175,443)
	824,557	824,557
Accumulated interest	<u>211,534</u>	108,977
	1,036,091	933,534
	3,133,111	2,803,479
Less: Deferred financing costs	<u>45,720</u>	60,398
	3,087,391	2,743,081
Short-term component of debenture	<u>428,763</u>	—
	2,658,628	2,743,081

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2008 and 2007

**11. DEBENTURE AND 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 the difference.

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

	\$
2009	400,000
2010	1,500,000
2011	1,000,000

12. LONG-TERM DEBT

	2008	2007
	\$	\$
Canada Economic Development		
Non-interesting contribution, repayable in ten semi-annual principal instalments of \$8,876 starting in March 2009 and ending September 2013 [see note (a)].	88,756	88,756
Carry forward	88,756	88,756

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2008 and 2007

12. LONG-TERM DEBT [Cont'd]

	2008	2007
	\$	\$
Canada Economic Development [Cont'd]		
Carried forward	88,756	88,756
Amount recorded under other revenues	(47,225)	(47,225)
	41,531	41,531
Accumulated interest	21,629	13,209
	63,160	54,740
 Non-interesting contribution, repayable in ten semi-annual principal instalments of \$1,104 starting in April 2010 and ending October 2014 [see note (a)].	45,298	11,038
 A maximum contribution of \$219,200 has been authorized. As of September 30, 2008, the Company had received amounts totalling \$11,038.	45,298	11,038
Amount recorded under other revenues	(26,422)	(6,353)
	18,876	4,685
Accumulated interest	3,119	330
	21,995	5,015
	85,155	59,755
 Term loan, 6.45%, repaid during the year.	—	17,170
	85,155	76,925
Short-term component of long-term debt	17,751	7,628
	67,404	69,297

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2008 and 2007

12. LONG-TERM DEBT [Cont'd]

- (a) These contributions were discounted using a rate of 18%, considering the market rate for a similar financial instrument.

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

	\$
2009	17,751
2010	17,751
2011	22,281
2012	26,810
2013	26,811

13. SHAREHOLDERS' DEFICIENCY

Authorized

Unlimited number of common shares, without par value.

Issued and fully paid

	Common		Warrants	
	Number	\$	Number	\$
Balance as at September 30, 2006	30,119,866	2,826,483	5,787,114	1,200,749
Re-evaluation of 4,837,000 warrants	—	—	—	(45,952)
Issued for cash – private placement	5,897,290	2,487,695	3,538,374	934,991
Balance as at September 30, 2007	36,017,156	5,314,178	9,325,488	2,089,788
Issued for cash – private placement	2,225,000	548,685	2,225,000	341,315
Issued – interest conversion of convertible debenture	973,552	427,888	—	—
Issued – interest conversion of convertible debenture	194,200	47,890	194,200	29,790
Expired warrants	—	—	(5,787,114)	(1,154,797)
Balance as at September 30, 2008	39,409,908	6,338,641	5,957,574	1,306,096

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

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13. SHAREHOLDERS' DEFICIENCY [Cont'd]

2008

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 a discount of 20%, resulting in a conversion price of \$0.4395.

The Company concluded a private placement by issuing 2,225,000 units (each unit consisting of a share and a warrant) for gross proceeds of \$890,000, comprising of \$548,685 for the shares and \$341,315 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 \$0.50. Warrants were valued using the Black-Scholes model.

The Company converted \$77,680 of accrued interest with regards to the debenture held by Fier Cap-Diamant into 194,200 units of the Company. The units issued comprise the same features of those issued in the private placement described above. The amount comprises \$47,890 for the shares and \$29,790 for the warrants attached to the unit. Warrants were valued using the Black-Scholes model.

2007

The Company concluded a private placement by issuing 5,897,290 units (each unit consisting of a share and a half-warrant) for gross proceeds of \$3,243,509, comprising of \$2,487,695 for the shares and \$755,814 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 \$0.70. As part of this transaction, the Company issued 589,729 broker warrants to the agents as compensation. These warrants were accounted for an amount of \$179,177. Each warrant entitles the agent, at any time during the 24-month period after the closing date, to subscribe to a unit at \$0.55 per unit (each unit has the same features of those issued in the private placement described previously). Warrants were valued using the Black-Scholes model. In addition, the Agent received a cash commission of \$259,480 equal to 8% of the gross proceeds from the sale of units to purchasers.

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2008 and 2007

13. SHAREHOLDERS' DEFICIENCY [Cont'd]

2007 [Cont'd]

During the year 2007, the Company also decided to adjust the maturity date of 4,837,000 warrants with an exercise price of \$0.60 from February 11, 2007 to February 11, 2008. The modification made to these warrants was treated as a new issuance and valued at \$879,850 compared to the previous amount of \$925,802. Consequently, an adjustment of \$45,952 to the value of these warrants was accounted for.

Stock options

On October 27, 2004, the Company approved a new stock option plan for employees, officers, directors, consultants and suppliers of the Company. During the year, the Company amended the plan to increase the number of stock options from 2,462,500 to 3,011,986 that can be granted under the plan. 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 with respect to 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. All issued options expire five years after the date of issuance and the Company's typical vesting schedule is 20% after one year and then 10% at the end of every additional three-month period. All options, therefore, become fully vested within a three-year period. Grants to Company directors vest immediately.

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2008 and 2007

13. SHAREHOLDERS' DEFICIENCY [Cont'd]

Stock options [Cont'd]

	2008		2007	
	Options	Weighted-average exercise price \$	Options	Weighted-average exercise price \$
Outstanding, beginning of year	1,702,900	0.56	1,704,550	0.56
Granted under the plan	538,200	0.45	215,100	0.55
Exercised	—	—	—	—
Cancelled	(246,835)	0.52	(216,750)	0.55
Outstanding, end of year	1,994,265	0.53	1,702,900	0.56
Exercisable options, end of year	1,450,336	0.55	1,195,210	0.54
Weighted-average fair value of options granted during the year		0.26		0.32

Date of grant	Maturity date	Exercise price \$	2008	
			Outstanding options	Options exercisable
February 11, 2005	February 11, 2010	0.50	925,000	925,000
May 2, 2005	May 2, 2010	0.85	2,500	2,500
September 15, 2005	September 15, 2010	0.72	94,500	94,500
March 15, 2006	March 15, 2011	0.72	17,500	16,800
April 5, 2006	April 5, 2011	0.76	187,000	144,100
August 25, 2006	August 25, 2011	0.60	38,595	31,530
October 15, 2006	October 15, 2011	0.71	15,000	7,500
December 5, 2006	December 5, 2011	0.53	100,000	100,000
February 21, 2007	February 21, 2012	0.60	8,370	5,940
May 4, 2007	May 4, 2012	0.60	50,000	16,666
August 20, 2007	August 20, 2012	0.45	29,000	5,800
Carry forward			1,467,465	1,350,336

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2008 and 2007

13. SHAREHOLDERS' DEFICIENCY [Cont'd]

Stock options [Cont'd]

Date of grant	Maturity date	Exercise price \$	2008	
			Outstanding options	Options exercisable
Carried forward			1,467,465	1,350,336
December 19, 2007	December 19, 2012	0.45	113,000	—
February 13, 2008	February 13, 2013	0.45	13,800	—
June 19, 2008	June 19, 2013	0.45	400,000	100,000
			1,994,265	1,450,336

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

	2008	2007
Expected dividend yield	None	None
Expected volatility	80-86%	77-90%
Risk-free interest rate	3.24%-3.38%	3.85%-4.64%
Expected life in years	2-4	2-4

Warrants

Date of Issue	Expiry Date	Exercise price \$	2008	
			Outstanding Warrants	Value \$
Regular Warrants (1)				
April 5, 2007	April 5, 2009	0.70	1,372,727	356,634
April 16, 2007	April 16, 2009	0.70	1,575,918	399,180
July 14, 2008	July 14, 2010	0.50	2,225,000	341,315
July 14, 2008	July 14, 2010	0.50	194,200	29,790
Carry forward			5,367,845	1,126,919

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2008 and 2007

13. SHAREHOLDERS' DEFICIENCY [Cont'd]

Warrants [Cont'd]

Date of Issue	Expiry Date	Exercise price \$	2008	
			Outstanding Warrants	Value \$
Carried forward			5,367,845	1,126,919
Warrants Issued to Agents (2)				
April 5, 2007	April 5, 2009	0.55	274,545	84,779
April 16, 2007	April 16, 2009	0.55	315,184	94,398
			589,729	179,177
			5,957,574	1,306,096

- (1) The regular warrants give the right to the holder to subscribe to one common share of the Company at the specified exercise price.
- (2) The warrants issued to agents give the right to the holder to subscribe to one unit of the Company comprised of one common share and one half of one warrant as per the terms of the placement from which these warrants were issued.

Contributed Surplus

	2008 \$	2007 \$
Balance, beginning of year	590,616	445,093
Stocks-based compensation expense	84,747	145,523
Expired warrants	1,154,797	—
Balance, end of year	1,830,160	590,616

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2008 and 2007

14. 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 management of capital, the Company considers the following items :

	2008	2007
	\$	\$
Debenture and liability component of convertible debentures	3,133,111	2,803,081
Shareholders’ deficiency	(2,269,009)	(682,795)
	<u>864,102</u>	<u>2,120,286</u>

The company is not subject to any externally imposed capital requirements.

With regards to its long term financial instruments obligations including long term debt and the debentures, the company’s strategy is explained as follows:

- Securing one or more financing by issuing equity instruments.
- Generating cash flows from operations by signing strategic partnerships and increasing its sales capacity.
- Obtaining traditional long term financing.

With respect to these objectives, the Company concluded a private placement for a gross proceeds of \$890,000 [note 13].

The Company’s loss per share was fixed at \$0.02 for the year versus \$0.02 for the previous year.

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2008 and 2007

15. 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:

	2008	2007
	%	%
Statutory combined provincial and federal tax rate	31.18	32.02
Decrease in taxes recoverable from:		
Non-deductible expenses	(1.05)	(1.35)
Tax reduction based on fiscal loss	(30.13)	(30.67)
	<u>—</u>	<u>—</u>

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

	2008	2007
	\$	\$
Future tax assets		
Net losses from operations carry forward	2,739,000	2,415,000
Non-deducted research and development expenses	261,000	230,000
Excess of tax basis of financing expenses over their carrying value	80,000	140,000
Excess of tax basis of fixed assets over their carrying value	28,000	23,000
General provision subsequently deductible	10,500	9,500
	3,118,500	2,817,500
Valuation allowance	(3,046,000)	(2,704,000)
Net future tax assets	72,500	113,500
Future Tax Liabilities		
Excess of tax basis of convertible debentures and long-term debt over their carrying value	58,500	82,500
Excess of carrying value of intangible assets over their tax basis	5,500	6,000
Excess of carrying value of deferred development costs over tax basis	8,500	25,000
	72,500	113,500
Future Income Taxes	<u>—</u>	<u>—</u>

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2008 and 2007

15. INCOME TAXES [Cont'd]

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		Expiration year
	Federal \$	Provincial \$	
2008	2,763,000	2,759,000	2028
2007	3,548,000	3,538,000	2027
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

The Company has an available balance of non-deducted research and development expenses that could serve to reduce taxable income in future years of \$832,000 for federal and \$1,145,000 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 provision for writedown.

Finally, the Company disposes of \$223,000 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.

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2008 and 2007

**16. ADDITIONAL INFORMATIONS ON CONSOLIDATED
STATEMENTS OF LOSS**

	2008	2007
	\$	\$
Selling and commercialization expenses		
Government assistance	—	59,874
Development expenses		
Research and development tax credits	17,200	14,000
Interest on debentures and other financial expenses		
Amortization of financing costs	23,178	18,219

17. OTHER REVENUES

	2008	2007
	\$	\$
Interest	17,440	38,290
Rental	31,891	37,987
Contribution – Canada Economic Development	20,067	3,482
Gain (loss) on disposal of property, plant and equipment	4,304	(6,895)
Foreign exchange gain (loss)	3,682	(26,131)
	77,384	46,733

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2008 and 2007

18. RELATED PARTY TRANSACTIONS

	2008	2007
	\$	\$
Companies controlled by shareholders and directors		
Professional fees	—	35,000
Rent	288,331	269,746
Shareholder		
Acquisition of property, plant and equipment	—	13,550

Professional fees and rent are included in administration and general expenses.

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.

19. COMMITMENTS

a) Leases

In addition to the commitments described elsewhere in these consolidated financial statements, the Company has signed a lease for its permanent place of business as well as for some fixed assets. The lease for the building was signed with a Company controlled by shareholders of the Company for a total of \$2,875,971 with a fixed expiration date of 2020. These leases have expiration dates that vary between 2009 and 2020, and commit the Company to payments totalling \$2,974,221. The minimum payments for the next five years are as follows:

	\$
2009	274,369
2010	262,767
2011	256,826
2012	240,666
2013	223,076

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2008 and 2007

19. COMMITMENTS [Cont'd]

b) Guarantee

The Company has guaranteed, to a maximum of 25%, a mortgage loan totalling \$1,200,000. This loan was contracted by a Company controlled by shareholders of the Company. This guarantee was evaluated at \$12,300 and accounted for as accounts payable and accrued liabilities.

20. FINANCIAL INSTRUMENTS

Fair value

Fair value is subjective in nature, requiring valuation techniques and assumptions. Fair value amounts disclosed in these consolidated financial statements represent the Company's estimate of the price at which a financial instrument could be exchanged in a market in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. They are point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors.

i) Short-term financial assets and liabilities

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and short term component of debenture are a reasonable estimate of their fair values, because of the short maturity of these instruments.

ii) Long-term financial liabilities

The fair values of the debt component of the convertible debentures and long-term debt are estimated using discount rates of 18% at September 30, 2008 and 2007. The fair value of long-term financial liabilities approximates their carrying value.

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2008 and 2007

20. FINANCIAL INSTRUMENTS [Cont'd]

Classification

The classification of financial instruments and their respective carrying values and fair values are as follows:

	2008		2007	
	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
FINANCIAL ASSETS				
Held for trading:				
Cash and cash equivalents	370 821	370 821	1 258 024	1 258 024
Loans and receivables				
Accounts receivable [note 6]	295 431	295 431	155 518	155 518
Total financial assets	666 252	666 252	1 413 542	1 413 542
FINANCIAL LIABILITIES				
Other financial liabilities:				
Accounts payable and accrued liabilities ⁽¹⁾	741 678	741 678	475 934	475 934
Long-term debt	85 155	85 155	76 925	76 925
Convertible debentures	3 133 111	3 133 111	2 803 081	2 803 081
Total financial liabilities	3 959 944	3 959 944	3 355 940	3 355 940

⁽¹⁾ Excludes provisions amounting to \$57,712 at September 30, 2008 [\$47,000 in 2007] as these amounts are not contractual obligations to pay cash.

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2008 and 2007

20. FINANCIAL INSTRUMENTS [Cont'd]

Interest rate risk

The Company is not exposed to interest rate fluctuation, which arises from the degree of volatility of interest rates, since the debentures and the long-term debt bear interest at fixed rates. The Company does not use any derivative financial instruments to reduce its exposure to interest rate risk.

Credit risk

Credit risk is the risk that an unexpected loss occurs if a counterparty to a financial instrument fails to meet its contractual obligations.

This risk may affect cash and cash equivalents and is mitigated by the Company's compliance with its investment policy objectives. These objectives are focused on return, safety of capital and liquidity. As at September 30, 2008, cash and cash equivalents are held with Canadian banks.

This risk may also affect accounts receivable. 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 regards to potential losses. As at September 30, 2008, one client represents 96% of the accounts receivable [three clients represented 95% as at September 30, 2007]. The trade receivable distribution of the Company is listed below:

Current \$	30-89 days \$	90 days and more \$	Total \$
280,396	15,035	—	295,431

The Company's maximum credit risk exposure corresponds to the carrying values of its cash and cash equivalents and accounts receivable.

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

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2008 and 2007

20. FINANCIAL INSTRUMENTS [Cont'd]

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.

The Company is exposed to currency risk denominated in U.S. dollars as shown in the table above:

	U.S. dollars	
	2008	2007
	\$	\$
Accounts receivable	266,219	72,203

Based on the above exposures as at September 30, 2008, and assuming that all other variables remain constant, a 5% depreciation or appreciation of the Canadian dollar against the U.S. dollar would result in a decrease or increase in the Company's net loss and comprehensive loss of approximately \$13,310 applicable to the U.S. dollar exposure.

Liquidity risk

Liquidity risk is the risk that an entity may not be able to meet its financial obligations as they fall due.

The following are the contractual undiscounted cash flows of financial liabilities at September 30, 2008:

	Maturities	
	Less than 1 year	1 to 5 years
	\$	\$
Accounts payable and accrued liability	741,678	—
Long term debt	—	134,054
Debenture and convertible debentures	400,000	2,500,000
	1,141,678	2,634,054

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2008 and 2007

21. COMPARATIVE FIGURES

Certain of the 2007 figures have been restated to conform with the presentation adopted in 2008.

22. SUBSEQUENT EVENT

On December 23, 2008, TSX Venture Exchange conditionally accepted the Company's request to issue common shares in payment of interest due on a debenture held by Fier Cap Diamant in the amount of \$1,000,000. The issue price would be \$0.241125 conditional that the issue price is not below a discounted price at issue date. If this condition is respected, the Company would issue 295,133 common shares plus additional common shares to be determined based on the accrued interest rate of 11% from February 2008 to settlement date.