



## Management's Discussion and Analysis

First quarter ended December 31, 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, 2008, and the Company's unaudited interim consolidated financial statements for the quarter ended December 31, 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 disclaimer***

*Certain statements included herein, including those that express management's expectations or estimates of our future performance, constitute "forward-looking statements" within the meaning of applicable securities laws. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management at this time, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Investors are cautioned not to put undue reliance on forward-looking statements. We disclaim any intent or obligation to update publicly these forward looking statements, whether as a result of new information, future events or otherwise.*

### **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<sup>®</sup> and PicHammer<sup>®</sup> names as well as under world renowned private label brands thru OEM agreements with large manufacturers.

The trademarks PicBucket<sup>®</sup>, PicHammer<sup>®</sup> 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<sup>®</sup>. The PicBucket<sup>®</sup> 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.

## **Selected Financial Information**

**For the three months ended December 31,**

	<b>2008</b>	2007
	<b>\$</b>	\$
Revenues	<b>423,059</b>	84,932
Net Loss	<b>(325,170)</b>	(571,510)
Basic and Diluted loss per share	<b>(0.01)</b>	(0.02)
Total Assets	<b>1,355,893</b>	2,212,399
Total long term liabilities	<b>3,154,825</b>	2,491,866
Inventories	<b>519,770</b>	892,337
Cash on Hand	<b>55,964</b>	566,596

## **Results of Operations**

### *Sales and Commercialization Strategy*

During the quarter, total revenues generated totaled \$423,059 from the sale of PicBuckets and their related tools and accessories. Total sales for the same period last year totaled \$84,932. Revenues increased as we continued to deliver on orders from our distributors.

### *Gross Margin and Supply Chain Strategy*

Gross margin for the three month period ended December 31, 2008 was 40.8% of sales versus 8.0% for the same period last year. The direct cost of sales margins were 45.6% compared to 31.6% for the same period last year. Indirect costs for the current period are for overhead costs related with the warehouse. The improvement in margins is due to the

supply chain effort started in previous periods and the strengthening of the US dollar, most of our sales are in USD.

#### *Administrative expenses*

For the three month period ended December 31, 2008, administrative expenses totaled \$225,917 for the 2008 fiscal year versus \$255,401 in 2007. These expenses include management salary concessions in order to get through the expected down turn in the marketplace. The major portions of administrative costs remain to be the following:

	<b>For the three months ended December 31,</b>	
	<b>2008</b>	2007
Salaries and wages	<b>\$ 64,545</b>	\$ 86,860
Professional fees	<b>\$ 25,549</b>	\$ 33,004
Rent	<b>\$ 44,618</b>	\$ 43,217
Stock options Compensation Cost	<b>\$ 19,632</b>	\$ 21,850

Even though the above accounts show a reduction over last year, the increase is due to the Company changing its business model resulting in indirect costs being included in administration and general expenses rather than in indirect cost of goods sold. The Company outsources production and manages work in progress and finished goods in our warehouse and in some cases the customer will perform final assembly.

#### *Selling and Commercialization Expenses*

Selling and commercialization expenses totaled \$95,765 for the three months ended December 31, 2008 versus \$158,271 for the same period last year. There has been some significant changes year over year in the sales and marketing department that explain this decrease.

#### *Development Expenses*

For the first three months of this fiscal year, total development expenses were \$43,024 compared to \$25,329 for last year's first quarter. We continue to develop the series 5000 and other series for commercial use.

#### *Financial expenses*

Financial expenses totaled \$114,168 for the first quarter compared to \$97,970 for the same period last year. The financial expenses are made up predominantly of the interest related to two outstanding convertible debentures and a debenture.

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

Amortization of the company's property, plant and equipment totaled \$31,425 for the three months ended December 31, 2008 compared to \$22,149 for the same period last year. Increase is due to the amortization of an MRP system implemented in fiscal 2008.

### *Amortization of other Assets*

The amortization of other assets, comprised of development costs and patents, totaled \$39,720 for the first quarter of the 2009 fiscal year versus \$39,359 for the same period last year. Amortization is comparable year over year as expenses to maintain the patents are being expensed.

### *Foreign exchange gain*

Foreign exchange gain is the result of the strengthening American dollar, gain for the quarter was \$44,161 compared to \$527 for the same period last year.

### *Other Revenues*

Other revenues totaled \$8,241 for the quarter, compared to \$19,632 for last year; decrease is due to the reduction of interest revenue on cash held.

### *Net Loss*

The net loss for the first quarter of the 2009 fiscal year is \$325,170 compared to \$571,510 for the same period last year. The reduction net loss is due to the growth of revenues and improving gross margins and the continued effort to reduce operating expenses.

## **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>
December 31, 2008	423,059	(325,170)	(0.01)	(0.01)
September 30, 2008	438,188	(1,378,267)	(0.03)	(0.03)
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)

As of December 31, the Company's capital structure was as follows:

	<b>2008</b>	<b>2007</b>
Common shares outstanding	<b>39,705,041</b>	36,990,708
Stock options outstanding	<b>1,900,600</b>	1,815,900
Share warrants outstanding	<b>5,957,574</b>	9,325,488
Fully diluted shares outstanding	<b>47,563,215</b>	48,132,096

### Summary of Capital Structure

As of the publishing date of this report, Power Tech has 39,705,041 outstanding common shares and an additional 1,900,600 stock options and 5,957,574 warrants outstanding. Therefore, the total number of fully diluted shares outstanding is 47,563,215. However, these options and warrants were not included in the computation of diluted loss per share because the effect would be anti-dilutive.

During the quarter the Company issued 295,133 common shares to pay for accrued interest of \$71,163 on a debenture held by Fier Cap Diamant. 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 minus the maximum discount of 20% permitted by the TSX Venture Exchange, resulting in a conversion price of \$0.241125.

### **Balance Sheet**

#### *Cash and cash equivalents*

As at December 31, 2008, cash and cash equivalents were \$55,964 compared to \$370,821 at September 30, 2008. The Company has a \$50,000 line of credit which is unused and also obtained tax credit financing for FY2008-2009 which makes available \$105,000 (\$52,500 available immediately and the rest as SR&ED expenses are incurred). The Company also obtained sales order financing of \$175,000 to finance production of sales orders.

#### *Current Assets*

Current assets have decreased to \$1,028,068 at December 31, 2008 from \$1,454,563 at September 30, 2008. Decrease is mainly due to the reduction of cash and cash equivalents to pay down current liabilities.

### *Current Liabilities*

Current liabilities have decreased from \$1,377,832 at September 30, 2008 to \$1,093,181 at December 31, 2008. Accounts payable and accrued liabilities have decreased marginally since the end of the fiscal year. In addition, the Company received a deposit from NPK treated as deferred revenues for \$114,153. As part of the agreement, NPK finances part of the modifications of the Picbuckets. Once the Picbuckets are available commercially, these amounts will be offset against units delivered.

### *Property, plant and equipment*

Investment in fixed assets totaled \$5,383 during the first quarter of the fiscal year. Amortization was \$31,425 for the period up from \$22,149, mostly due to amortization of a new MRP system implemented in 2008.

### *Intangible Assets*

The company's intangible assets are the intellectual property, specifically patents related to the intellectual property behind the PicBucket and PicHammer. The capitalized value of these intangible assets totals \$134,156 at December 31, 2008 versus \$136,970 on September 30, 2008.

### *Deferred Charges*

Deferred development costs totaled \$7,536 at December 31, 2008 compared to \$31,147 at September 30, 2008. As previously mentioned, the major development projects focusing on the currently commercially available Series 1000 and 2000, and their associated tools, are now fully amortized. Currently, development efforts continue to focus primarily on the development of new product lines.

### *Debt*

The majority of the long-term debt is made up of the two convertible debentures and the liability component of these debentures is valued at \$2,694,692 at December 31, 2008 compared to \$2,658,628 as of September 30, 2008. Interest is being paid through issuance of shares. There is also a non-convertible debenture due on March 20, 2009 in the amount of \$442,382. There is also long term debt composed of two interest free loans from Canada Economic Development valued at \$89,154 (of which \$17,751 is short-term).

## **Statement of Cash Flows**

### *Cash used for Operating Activities*

Cash used for operating activities for the quarter was \$302,859. The majority of these cash outflows are explained by the ongoing sales, marketing and business development activities as well as the company's administrative expenses. Last year, for the same three month period last year, operating activities used \$623,320.

### *Cash used by Investing Activities*

Investing activities for the quarter consumed \$11,998 compared to \$66,247 for the same period last year. Very little was spent on capital expenses in the period.

### *Cash provided by Financing Activities*

No financing activities occurred in the period. The same period last year, \$1,861 was used to pay down long term debt.

## **Financial Position**

As of December 31, 2008, the corporation has negative working capital of \$65,113 including \$55,964 of cash and cash equivalents. The Company has a \$50,000 line of credit which is unused and also obtained tax credit financing for FY2008-2009 which makes available \$105,000 (\$52,500) available immediately and the rest as SR&ED expenses are incurred). The Company also obtained sales order financing of \$175,000 to finance production of sales orders.

While the company expects to generate an increasing amount of revenue in the short and medium term, it must be considered that the corporation has incurred significant losses since its inception. The company is working on acquiring additional financing that will provide financial resources for an additional 12-24 months. Due to the current financial and economic conditions it may be very difficult to raise additional capital. The Company is seeking financing from different government sources such as financing SR&ED credits and purchase orders. The Company has also taken steps to reduce its overall cash burn till it can secure additional financing.

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 2009**

#### **Inventories**

During the current quarter, the Company adopted 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, 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 adoption of these new standards had no impact on the interim consolidated financial statements of the Company.

#### **Goodwill and intangible assets**

Section 3064, “Goodwill and intangible assets”, is replacing Section 3062, “Goodwill and other intangible assets” and Section 3450, “Research and development costs”. The new section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company does not expect that the adoption of this new Section will have a material impact on its interim and annual consolidated financial statements.

## **RECENTLY ISSUED**

#### **International financial reporting standards**

The Accounting Standards Board of Canada has announced that accounting standards in Canada, as used by public companies, will converge to International Financial Reporting Standards (“IFRS”) over a transition period that is expected to be complete by 2011. On February 13, 2008, the CICA confirmed 2011 as the official changeover date from current Canadian GAAP to IFRS. The Company will convert to these new standards according to the timetable set with these new rules.

#### **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 December 31, 2008 a total of \$64,344 was paid by PowerTech to this company versus \$63,369 for the same period last year. 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.

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, 2008 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 \$325,170 for the quarter and has an accumulated deficit of \$12,358,178 as at December 31, 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.

## Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method and includes raw materials, direct labour and manufacturing overhead costs.

## 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 December 31, 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

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

## **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 December 31, 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

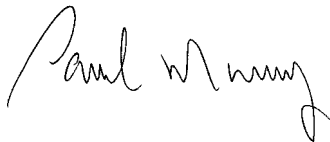
as required, particularly during the period in which the annual filings were being prepared. Management has made no material changes to the Company's internal controls over financial reporting during the Company's most recent interim period. Due to the size of the company and limited staff, there are limitations to completely segregating a number of duties that are part of a typical control environment.

## **Outlook**

The Company's continues to focus on the expansion of its distribution network, including the deployment of the series 5000 PicBucket<sup>®</sup> for applications in the concrete recycling industry. Despite the challenging business conditions currently prevailing in North-America and abroad, PowerTech believes that it stands to benefit from an increase in infrastructure spending and from the need for the industry to increase its productivity. The Company is working on acquiring additional financing that will provide financial resources for an additional 12-24 months. Due to the current financial and economic conditions it may be very difficult to raise additional capital or other sources of financing. As mentioned previously the Company has obtained some short term financing from different government sources such as financing SR&ED credits and purchase orders. The Company has also reduced its overall cash burn until it can secure additional financing.

## **Risks and Uncertainties**

We operate in an industry subject to various risks and uncertainties. The following are not the only risks and uncertainties that could affect the Corporation. Further risks and uncertainties currently unknown to or deemed insignificant by the Corporation could potentially hinder its operations. The materialization of any of the following risks may adversely affect the Corporation's activities and have a significant negative effect on its financial position and operating results. In that event, the price of its common shares may decrease. A list of risks and uncertainties are described in the management discussion and analysis for the year ended September 30, 2008 available on SEDAR ([www.sedar.com](http://www.sedar.com)) or on the Company's website ([www.powertechci.com](http://www.powertechci.com)).



Carol Murray  
President and Chief Executive Officer



Nick Cristiano  
Chief Financial Officer

Terrebonne, Québec, February 25, 2009