

Consolidated Financial Statements

Power Tech Corporation Inc.

September 30, 2009 and 2008

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, 2009 and 2008 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 Corporation'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 Corporation as at September 30, 2009 and 2008 and the results of its operations and its cash flows for years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP¹

Chartered Accountants

Québec City, Canada
November 25, 2009

¹ CA auditor permit no. 10845

Power Tech Corporation Inc.

CONSOLIDATED BALANCE SHEETS [note 2]

As at September 30

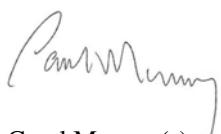
	2009 \$	2008 \$
ASSETS		
Current assets		
Cash and cash equivalents	329,944	370,821
Accounts receivable [note 5]	224,289	377,534
Tax credits receivable [note 10]	30,000	70,000
Inventories [note 6]	395,773	615,854
Prepaid expenses	10,816	20,354
Total current assets	990,822	1,454,563
Property, plant and equipment [note 7]	127,427	212,175
Intangible assets [note 8]	135,201	136,970
Deferred charges [note 9]	—	31,147
	1,253,450	1,834,855
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities		
Short-term loan [note 10]	30,000	—
Accounts payable and accrued liabilities	325,206	799,390
Deferred revenues	107,943	131,928
Short-term component of debenture and liability component of convertible debentures [note 11]	2,573,044	428,763
Short-term component of long-term debt [note 12]	17,751	17,751
Total current liabilities	3,053,944	1,377,832
Debenture and liability component of convertible debentures [note 11]	1,107,056	2,658,628
Long-term debt [note 12]	87,531	67,404
Shareholders' deficiency		
Capital stock [note 13]	6,876,685	6,338,641
Warrants [note 13]	602,475	1,306,096
Contributed surplus [note 13]	2,893,464	1,830,160
Equity component of convertible debentures [note 11]	289,102	289,102
Deficit	(13,656,807)	(12,033,008)
	(2,995,081)	(2,269,009)
	1,253,450	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

	2009	2008
	\$	\$
Deficit, beginning of year	(12,033,008)	(8,966,479)
Net loss	(1,573,799)	(3,066,529)
Unit issue costs <i>[note 13]</i>	(50,000)	—
Deficit, end of year	(13,656,807)	(12,033,008)

See accompanying notes

Power Tech Corporation Inc.

**CONSOLIDATED STATEMENTS OF LOSS
AND COMPREHENSIVE LOSS**

For the years ended September 30

	2009	2008
	\$	\$
Sales	951,551	1,455,279
Cost of goods sold		
Direct costs	547,663	904,146
Indirect costs	59,429	79,842
	607,092	983,988
	344,459	471,291
Expenses <i>[note 16]</i>		
Administration and general expenses	966,505	1,364,813
Interest on debenture and other financial expenses	586,495	430,877
Selling and marketing expenses	235,168	1,149,304
Development costs	75,147	113,027
Write-off and provision for obsolete inventories	—	287,452
Amortization of property, plant and equipment	90,616	82,892
Amortization of development costs	37,763	176,032
Amortization of patents	11,465	10,807
	2,003,159	3,615,204
Operating loss	(1,658,700)	(3,143,913)
Other revenues <i>[note 17]</i>	84,901	77,384
Net and comprehensive loss	(1,573,799)	(3,066,529)
Basic and diluted loss per share	(0.04)	(0.08)
Weighted average number of shares outstanding during the year [in thousands]	41,072	37,424

See accompanying notes

Power Tech Corporation Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended September 30

	2009	2008
	\$	\$
OPERATING ACTIVITIES		
Net loss	(1,573,799)	(3,066,529)
Adjustments for:		
Write-off and provision for obsolete inventories	—	287,452
Contribution – Canada Economic Development	(21,388)	(20,067)
Gain on disposal of property, plant and equipment	—	(4,304)
Amortization of property, plant and equipment	90,616	82,892
Amortization of other assets	69,470	210,017
Accumulated and additional interest on convertible debentures	543,631	407,700
Accumulated interest on long term debt	13,334	11,209
Stock-based compensation expense	128,313	84,747
	(749,823)	(2,006,883)
Net change in non-cash working capital items	(75,305)	90,114
Cash flows used in operating activities	(825,128)	(1,916,769)
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(5,868)	(84,077)
Proceeds from disposal of property, plant and equipment	—	11,000
Additions to intangible assets	(9,696)	(12,484)
Increase in deferred charges	(6,616)	(183,461)
Cash flows used in investing activities	(22,180)	(269,022)

Power Tech Corporation Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS [Cont'd]

For the years ended September 30

	2009	2008
	\$	\$
FINANCING ACTIVITIES		
Net change in short-term loan	30,000	—
Increase in deferred financing costs	—	(8,500)
Issuance of debenture	100,000	400,000
Increase in long-term debt	45,932	34,258
Repayment of long-term debt	(17,751)	(17,170)
Issuance of units	648,250	890,000
Cash flows provided by financing activities	806,431	1,298,588
Net decrease in cash and cash equivalents	(40,877)	(887,203)
Cash and cash equivalents, beginning of year	370,821	1,258,024
Cash and cash equivalents, end of year	329,944	370,821
Additional information		
Interest paid	—	504
Tax credits receivable accounted for as a reduction of deferred charges	—	52,800
Issuance of debenture in consideration for conversion of prior debenture	400,000	—
Issuance of shares to settle accumulated interests on convertible debenture	71,164	427,888
Issuance of units to settle accumulated interest on convertible debenture	—	77,680
Issuance of units to settle unit issue costs	50,000	—

See accompanying notes

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2009 and 2008

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

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

All assets of the Corporation are located in Canada.

2. GOING CONCERN CONCEPT

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles based on the going concern concept, which assumes the Corporation 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, 2009, there was significant uncertainty as to the Corporation’s ability to continue as a going concern without securing additional financing.

The Corporation incurred a net loss of \$1,573,799 during the year [\$3,066,529 in 2008] and has an accumulated deficit of \$13,656,807 as at September 30, 2009 [\$12,033,008 in 2008]. Accordingly, the Corporation expects to have future capital requirements, specifically to pursue technology development and marketing initiatives, complete the business acquisition discussed in note 22, repay its debentures and long-term debt and, potentially, depending upon sales growth in the coming year, meet its obligations in the normal course of business. The Corporation wishes to fund its future capital requirements mainly by way of available cash and cash flows from operations and, if necessary, through additional financing. The ability to generate adequate 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 Corporation will generate short- and long-term capital under terms and conditions satisfactory to the Corporation.

These consolidated financial statements contain no restatement or reclassification of assets or liabilities that would be necessary if the Corporation proved unable to continue as a going concern.

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2009 and 2008

3. NEW ACCOUNTING POLICIES

[a] Adopted in 2009 and 2008

2009

Inventories

During the year, the Corporation adopted new Section 3031, *Inventories*, which replaces Section 3030, *Inventories*. The new section prescribes measurement of inventories at the lower of cost and net realizable value 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 this new standard had no impact on the Corporation's consolidated financial statements, except for the additional disclosure in note 6.

Goodwill and intangible assets

During the year, the Corporation adopted Section 3064, *Goodwill and Intangible Assets*. The new section 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. As for subsequent measurement of intangible assets, goodwill and disclosure, Section 3064 carries forward the requirements of former Section 3062, *Goodwill and Other Intangible Assets*. The adoption of this new standard had no material effect on the Corporation's consolidated financial statements.

Financial instruments

During the year, the Corporation adopted EIC-713, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. Under the new abstract, an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial liabilities and financial assets, including derivative instruments. The adoption of this new standard had no material effect on the consolidated financial statements.

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2009 and 2008

3. NEW ACCOUNTING POLICIES [Cont'd]

[a] Adopted in 2009 and 2008 [Cont'd]

2008

Capital

Section 1535, *Capital Disclosures*, establishes standards for disclosing information about an entity's capital and how it is managed. These standards require 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 year it complied with any capital requirements to which it is subject;
- when the entity has not complied with such requirements, these consequences of such non-compliance.

Financial instruments

Section 3862, *Financial Instruments – Disclosures*, modifies the disclosure requirements for financial instruments that were previously included in Section 3861, *Financial Instruments – Disclosure and Presentation*. The new standard requires 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 year 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 former Section 3861, *Financial Instruments – Disclosure and Presentation*.

With the exception of the disclosures required under the aforementioned sections, the adoption of these new standards had no material effect on the Corporation's consolidated financial statements.

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2009 and 2008

3. NEW ACCOUNTING POLICIES [Cont'd]

[b] Recently issued

Financial instruments

Section 3862, *Financial Instruments – Disclosures*, underwent a number of amendments which will result in enhanced disclosure requirements for fair value measurements and liquidity risk. The new amendments will be effective for fiscal years ending on or after September 30, 2010. Management expects the adoption of these amendments to have no material effect on the Corporation's consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

Consolidation

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

Use of estimates

The Corporation'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 framework of the accounting policies summarized below.

Cash and cash equivalents

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

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2009 and 2008

4. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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. Net realizable value with respect to raw materials is equal to replacement cost.

Property, plant and equipment

Property, plant and equipment are recorded at cost and amortized on a straight-line basis over the following periods:

Moulds	5 years
Machinery and equipment	5 years
Office furniture	1-5 years
Computer hardware	3 years
Computer software	3 years
Leasehold improvements	4-5 years

Intangible assets

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

Research and development costs

Research costs are expensed in the year in which they are incurred.

Development costs are expensed in the year in which they are incurred, except for those that meet Canadian generally accepted accounting principle criteria for deferral, which are capitalized and amortized over a maximum three-year period.

Financing

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.

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2009 and 2008

4. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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 consolidated 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 of these assets.

Government assistance related to current expenses is recorded as a reduction of these expenses.

Loss per share

Loss per share is 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, provided that all dilutive instruments were exercised at the beginning of the year or at their date of issuance and that the proceeds were used to purchase common shares of the Corporation at the average quoted market price of the common shares during the year. The warrants and stock options discussed in note 13 were not included in the diluted loss per share calculation because the Corporation is in a loss position, and the inclusion of these instruments would be anti-dilutive.

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2009 and 2008

4. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Stock-based compensation and other stock-based payments

The Corporation offers a stock option plan, discussed in note 13. The Corporation recognizes a compensation expense in respect of the stock options granted under the plan that does not provide for 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 period beginning on the award date and ending on the date the options vest. These expenses are included in the administration and general expenses and credited to contributed surplus. When options are exercised, the proceeds received by the Corporation, together with the expense included in contributed surplus, are credited to capital stock.

Financial instruments

The Corporation has implemented the following classifications:

- Cash and cash equivalents are classified as “Financial assets held for trading.” These financial assets are marked to market and gains/losses arising from remeasurement at each period-end are recorded through net income.
- Accounts receivable are classified as “Loans and receivables.” After their initial fair value measurement, they are measured at amortized cost using the effective interest method.
- Short-term loan, accounts payable and accrued liabilities, 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 method.

Revenue recognition

The Corporation’s revenues are derived from the sale of its main product, the PicBucket, and the related accessories. Operating revenues from these sales are recognized when the following criteria are met: the purchase agreement has been entered into between the Corporation and its client, delivery has occurred, the risks incident to ownership of property have been transferred, the price is fixed between the parties and ultimate collection is reasonably assured.

Deferred revenues consist of customer deposits.

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2009 and 2008

4. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Income taxes

The Corporation follows 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 realized or settled. A valuation 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 items 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 consolidated statement of loss.

5. ACCOUNTS RECEIVABLE

	2009	2008
	\$	\$
Trade receivables	180,200	295,431
Other	25,250	—
Commodity taxes receivable	18,839	82,103
	224,289	377,534

6. INVENTORIES

	2009	2008
	\$	\$
Raw materials	24,803	24,439
Work in progress	276,623	489,382
Finished goods	94,347	102,033
	395,773	615,854

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2009 and 2008

6. INVENTORIES [Cont'd]

As at September 2009, the Corporation recorded a provision for obsolete inventories of \$23,700 [\$287,452 in 2008] to reduce the carrying value of certain inventories to the lower of cost and net realizable value. During the year, the Corporation did not record any reversal of inventories provisioned in 2008.

Inventory cost recognized as an expense during the year amounting to \$534,309 [\$684,365 in 2008] is reported as cost of goods sold in the consolidated statement of loss.

7. PROPERTY, PLANT AND EQUIPMENT

	2009		2008	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$	\$	\$
Moulds	65,162	36,339	62,762	22,703
Machinery and equipment	30,119	23,593	30,119	18,117
Office furniture	134,398	99,357	134,398	73,297
Computer hardware	74,693	68,632	74,433	59,209
Computer software	76,293	43,144	73,085	21,095
Leasehold improvements	66,389	48,562	66,389	34,590
	447,054	319,627	441,186	229,011
Accumulated amortization	319,627		229,011	
	127,427		212,175	

8. INTANGIBLE ASSETS

	2009	2008
	\$	\$
Patents	183,934	174,238
Accumulated amortization	48,733	37,268
	135,201	136,970

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2009 and 2008

9. DEFERRED CHARGES

	2009	2008
	\$	\$
Developments costs [net of research and development tax credits of \$— in 2009 and \$52,800 in 2008]	823,327	816,711
Accumulated amortization	823,327	785,564
	<u>—</u>	<u>31,147</u>

10. SHORT-TERM LOAN

	2009	2008
	\$	\$
Loan, Centre d'aide aux entreprises des Basses-Laurentides, 10%, repayable in whole on collection of tax credits receivable, which are pledged as security for the loan.	30,000	—

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

	2009	2008
	\$	\$
Debenture, bearing interest at 18%, compounded biannually. Principal and accrued interest on this debenture were converted into a new debenture amounting to \$600,000.	—	400,000
Accrued interest	—	28,763
Carry forward	—	428,763

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2009 and 2008

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

	2009	2008
	\$	\$
Carried forward	—	428,763
Debenture, bearing interest at 18%, compounded biannually and maturing at the earliest of the following:		
[i] March 19, 2010.		
[ii] Change of control.		
Interest on the debenture is payable at maturity.	600,000	—
Accrued interest	55,627	—
	655,627	—
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 amounting to \$427,888 was converted into shares of the Corporation on October 31, 2007 [note 13]. Interest from August 3, 2007 to August 2, 2009 amounting to \$427,888 payable in cash was deferred until maturity of the convertible debenture, on August 2, 2010. Interest from August 3, 2009 to August 2, 2010 is payable in cash at the end of this period. The debenture is convertible as per the following terms and conditions:		
Carry forward	655,627	428,763

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2009 and 2008

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

	2009	2008
	\$	\$
Carried forward	655,627	428,763
[i] At the option of the debenture holder at all times, in whole or in part, into units of the Corporation at a conversion price of \$0.70. On or after August 3, 2007 and for all subsequent years, until August 2, 2010, the conversion price per unit will be increased by 10% per year relative to the conversion price of the previous year. Each unit includes one share and one warrant entitling the holder to purchase, at the earlier of two years after issuance or August 2, 2010, 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 Corporation on or after January 31, 2008 in whole or in part, if during at least 20 consecutive days, the closing price of the Corporation's common shares remains at a value of \$2.00 or more unless the debenture is converted in whole [note [a]].	1,500,000	1,500,000
Equity component of convertible debentures	(113,659)	(113,659)
	1,386,341	1,386,341
Accumulated interest	531,076	281,916
	1,917,417	1,668,257
Carry forward	2,573,044	2,097,020

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2009 and 2008

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

	2009	2008
	\$	\$
Carried forward	<u>2,573,044</u>	<u>2,097,020</u>
Convertible debenture, bearing interest at 13% as of March 23, 2009 [11% before this date] compounded annually [effective interest rate of 13.98% and 11.98% before March 23, 2009], 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. Accrued interest payable on February 28, 2008 amounting to \$77,680 was converted into units of the Corporation [note 13]. In addition, interest payable on September 29, 2008 amounting to \$71,164 was converted into shares of the Corporation [note 13]. 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 Corporation at a conversion price of \$0.70. As of September 27, 2008 and for all subsequent years, until September 29, 2011, the conversion price per unit will be increased by 10% per year relative to the conversion price of the previous year. Each unit includes one share and one-half warrant entitling the holder to purchase, at the earlier of two years after issuance or September 29, 2011, one common share at a price equal to the conversion price of the units at the time of the debenture's conversion.		
Carry forward	<u>2,573,044</u>	<u>2,097,020</u>

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2009 and 2008

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

	2009	2008
	\$	\$
Carried forward	<u>2,573,044</u>	<u>2,097,020</u>
[ii] At the option of the Corporation at any time, in whole or in part, if during at least 20 consecutive days, the closing price of the Corporation's common shares was \$1.40 or more and the debenture has not already been converted [note [b]].	1,000,000	1,000,000
Equity component of convertible debentures	<u>(175,443)</u>	<u>(175,443)</u>
	824,557	824,557
Accrued interest	<u>307,977</u>	<u>211,534</u>
	1,132,534	1,036,091
	3,705,578	3,133,111
Less: Deferred financing costs	<u>25,478</u>	<u>45,720</u>
	3,680,100	3,087,391
Current portion of debenture and liability component of convertible debentures	<u>2,573,044</u>	<u>428,763</u>
	1,107,056	2,658,628

[a] The liability component was determined by calculating the capital amount plus accrued interest at a rate of 18% until the August 2010 maturity, in light of the Corporation's stage of development and the risk that such an investment represents given that the financial instrument comprises no conversion privilege. The equity component represents the difference.

[b] The liability component was determined by discounting the capital amount plus accrued interest at a rate of 18% until the September 2011 maturity, in light of the Corporation's stage of its development and the risk that such an investment represents given that the financial instrument comprises no conversion privilege. The equity component represents the difference.

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2009 and 2008

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

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

	<u>\$</u>
2010	2,100,000
2011	<u>1,000,000</u>

12. LONG-TERM DEBT

	<u>2009</u>	<u>2008</u>
	\$	\$
Canada Economic Development		
Non-interest bearing contribution payable, original amount of \$88,756, repayable in ten semi-annual principal instalments of \$8,876, maturing in September 2013. Initially, this contribution was discounted using a rate of 18%.	54,425	63,160
Non-interest bearing contribution payable [maximum contribution authorized of \$100,126], original amount of \$91,228, repayable in ten semi-annual principal instalments of \$9,123 starting in April 2011, maturing in October 2015 [note [a]].	50,857	21,995
	<u>105,282</u>	<u>85,155</u>
Current portion of long-term debt	17,751	17,751
	<u>87,531</u>	<u>67,404</u>

[a] During the year, the Corporation received an amount of \$45,932 [\$34,258 in 2008] which was discounted using a rate of 18%, considering the market rate for a similar financial instrument. The excess of gross amount received over the discounted value amounting to \$21,388 [\$20,067 in 2008] was recorded in other revenues.

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2009 and 2008

12. LONG-TERM DEBT [Cont'd]

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

	\$
2010	17,751
2011	26,875
2012	35,997
2013	35,997
2014	18,246

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, 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 [note 11]	973,552	427,888	—	—
Issued – interest conversion of convertible debenture [note 11]	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
Issued – interest conversion of convertible debenture [note 11]	295,133	71,164	—	—
Issued for cash – private placement	6,482,500	434,629	3,241,250	213,621
Issued to agent – private placement	500,000	32,251	250,000	17,749
Expired warrants	—	—	(3,538,374)	(934,991)
Balance as at September 30, 2009	46,687,541	6,876,685	5,910,450	602,475

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2009 and 2008

13. SHAREHOLDERS' DEFICIENCY [Cont'd]

2009

The Corporation issued 295,133 common shares in payment of \$71,164 in accrued interest on the convertible debenture issued on September 29, 2006 to FIER CAP-Diamant. Under the terms of the debenture, the price of common shares issued was determined using the weighted average price of the Corporation's common shares traded during the 20-day period preceding the interest payment resulting in a conversion price of \$0.2411.

The Corporation concluded a private placement by issuing 6,482,500 units (each unit consisting of a share and one-half warrant) for gross proceeds of \$648,250, consisting of \$434,629 for the shares and \$213,621 for the warrants attached to each unit. The warrants entitle the holders, at any time during the 12-month period after the closing date, to purchase one common share at a price of \$0.20. In connection with the transaction, the Corporation issued 500,000 units with a value of \$50,000 to the agent by way of compensation. The shares were valued at \$32,251 and the warrants at \$17,749. The warrants were valued using the Black-Scholes model.

2008

The Corporation issued 973,552 common shares in payment of \$427,888 in accrued 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. Under the terms of the debenture, the price of common shares issued was determined according to the weighted average price of the Corporation'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 Corporation 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, consisting of \$548,685 for the shares and \$341,315 for the warrants attached to each unit. The warrants entitle the holders, at any time during the 24-month period after the closing date, to purchase one common share at a price of \$0.50. The warrants were valued using the Black-Scholes model.

On the closing date of the above-mentioned private placement, the Corporation converted \$77,680 in accrued interest on the debenture issued in favour of FIER Cap-Diamant into 194,200 units of the Corporation. The units issued comprise the same features as those issued in the private placement carried out during the year. The amount comprises \$47,890 for the shares and \$29,790 for the warrants attached to the unit. The warrants were valued using the Black-Scholes model.

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2009 and 2008

13. SHAREHOLDERS' DEFICIENCY [Cont'd]

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

	<u>2009</u>	<u>2008</u>
Expected dividend yield	None	None
Expected volatility	155%	86%
Risk-free interest rate	0.60%	3.24%
Expected life in years	1	2

Stock options

On October 27, 2004, the Corporation approved a new stock option plan for employees, officers, directors, consultants and suppliers of the Corporation. On February 9, 2009, the Corporation amended the stock option plan to increase the number of stock options from 3,011,986 to 4,668,754 that can be granted under the plan which represents 10% of issued and outstanding shares. 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.

These options vest under the terms determined by the Board of Directors and are usually conditional upon the maintenance of a business relationship with the Corporation. All issued options expire five years after the date of grant. The Corporation'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 corporate directors vest immediately.

	<u>2009</u>		<u>2008</u>	
	Options	Weighted- average exercise price \$	Options	Weighted- average exercise price \$
Outstanding options, beginning of year	1,994,265	0.53	1,702,900	0.56
Granted	720,000	0.17	538,200	0.45
Cancelled	(218,665)	0.59	(246,835)	0.52
Outstanding options, end of year	2,495,600	0.42	1,994,265	0.53

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2009 and 2008

13. SHAREHOLDERS' DEFICIENCY [Cont'd]

Stock options [Cont'd]

	2009		2008	
	Options	Weighted- average exercise price \$	Options	Weighted- average exercise price \$
Exercisable options, end of year	1,928,260	0.46	1,450,336	0.55
Weighted-average fair value of options granted during the year		0.12		0.26

Date of grant	Expiry date	Exercise price \$	2009	
			Outstanding options	Options exercisable
February 11, 2005	February 11, 2010	0.50	850,000	850,000
September 15, 2005	September 15, 2010	0.72	50,000	50,000
March 15, 2006	March 15, 2011	0.72	3,500	3,500
April 5, 2006	April 5, 2011	0.76	187,000	187,000
August 25, 2006	August 25, 2011	0.60	31,750	31,750
October 15, 2006	October 15, 2011	0.71	15,000	13,500
December 5, 2006	December 5, 2011	0.53	100,000	100,000
February 21, 2007	February 21, 2012	0.60	4,050	3,240
August 20, 2007	August 20, 2012	0.45	15,000	9,000
December 19, 2007	December 19, 2012	0.45	113,000	56,500
February 13, 2008	February 13, 2013	0.45	6,300	2,520
June 19, 2008	June 19, 2013	0.45	400,000	190,000
January 12, 2009	January 12, 2014	0.20	435,000	400,000
May 28, 2009	May 28, 2014	0.12	285,000	31,250
			2,495,600	1,928,260

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2009 and 2008

13. SHAREHOLDERS' DEFICIENCY [Cont'd]

Stock options [Cont'd]

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

	<u>2009</u>	<u>2008</u>
Expected dividend yield	None	None
Expected volatility	115%	80%
Risk-free interest rate	1.62%	3.25%
Expected life in years	3	3

Warrants			<u>2009</u>	
Date of issue	Expiry date	Exercise price \$	Outstanding warrants	Value \$
July 14, 2008	July 14, 2010	0.50	2,419,200	371,105
July 17, 2009	July 17, 2010	0.20	3,241,250	213,621
July 17, 2009	July 17, 2010	0.20	250,000	17,749
			<u>5,910,450</u>	<u>602,475</u>

The regular warrants give the right to the holder to subscribe to one common share of the Corporation at the specified exercise price.

Contributed surplus

	<u>2009</u>	<u>2008</u>
	\$	\$
Balance, beginning of year	1,830,160	590,616
Stocks-based compensation expense	128,313	84,747
Expired warrants	934,991	1,154,797
Balance, end of year	<u>2,893,464</u>	<u>1,830,160</u>

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2009 and 2008

14. CAPITAL MANAGEMENT

The Corporation maintains adequate capital to meet the following objectives:

- To secure a sufficient quantity of capital to fulfill the Corporation's business plan, including the marketing of its products.
- To provide shareholders with sustained growth in share value by minimizing the loss per share and ultimately maximizing earnings per share.

In connection with its capital management, the Corporation considers the following items:

	2009	2008
	\$	\$
Debt and liability component of convertible debentures	3,705,578	3,133,111
Shareholders' deficiency	(2,995,081)	(2,269,009)
	710,497	864,102

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

With regard to its long-term financial instrument obligations including long-term debt and the debentures, the Corporation's strategy is as follows:

- Securing one or more financing arrangements by issuing equity instruments.
- Generating cash flows from operations by signing strategic agreements and partnerships, making business acquisitions and growing sales.
- Obtaining traditional long-term bank financing.

With respect to these objectives, the Corporation concluded a private placement amounting to \$648,250 [note 13].

The Corporation's loss per share stood at \$0.04 for the year compared with \$0.08 for the previous year.

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2009 and 2008

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:

	2009	2008
	%	%
Statutory combined provincial and federal tax rate	30.90	31.18
Decrease in taxes recoverable from:		
Non-deductible expenses	(0.33)	(1.05)
Unrecorded tax benefits arising from operating losses	(30.57)	(30.13)
	—	—

Tax effects of temporary differences resulting in future tax assets and liabilities are as follows:

	2009	2008
	\$	\$
Future tax assets		
Net loss carryforwards related to operations	3,094,000	2,739,000
Non-deducted research and development costs	284,000	261,000
Excess of tax basis of financing costs over their carrying value	48,000	80,000
Excess of tax basis of fixed assets over their carrying value	25,000	28,000
General provision subsequently deductible	13,000	10,500
	3,464,000	3,118,500
Valuation allowance	(3,425,500)	(3,046,000)
Net future tax assets	38,500	72,500
Future tax liabilities		
Excess of tax basis of convertible debentures and long-term debt over their carrying value	38,500	64,000
Excess of carrying value of deferred development costs over tax basis	—	8,500
Future income tax liabilities	38,500	72,500
Net future income taxes	—	—

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2009 and 2008

15. INCOME TAXES [Cont'd]

The losses that the Corporation can carry forward for income tax purposes and the years in which these losses expire are detailed as follows:

Year of loss	Amount		Year of expiry
	Federal \$	Provincial \$	
2009	528,000	524,000	2029
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 Corporation has an available balance of non-deducted research and development costs that could be used to reduce taxable income in future years of \$903,000 for federal purposes and \$1,256,000 for provincial purposes.

Net loss carryforwards related to operations and the balance of non-deducted research and development costs are recognized as future income tax assets before valuation allowance.

Lastly, the Corporation has \$247,000 in investment tax credits that can be used to reduce federal taxes in future years. This non-refundable credit has not been recorded in the balance sheet.

**16. ADDITIONAL INFORMATION ABOUT CONSOLIDATED
STATEMENTS OF LOSS**

	2009 \$	2008 \$
Development costs		
Research and development tax credits	31,551	17,200
Interest on debentures and other financial expenses		
Amortization of financing costs	20,242	23,178

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2009 and 2008

17. OTHER REVENUES

	2009	2008
	\$	\$
Interest	323	17,440
Rental	18,457	31,891
Contribution – Canada Economic Development	21,388	20,067
Gain on disposal of property, plant and equipment	—	4,304
Foreign exchange gain	44,733	3,682
	84,901	77,384

18. RELATED PARTY TRANSACTIONS

	2009	2008
	\$	\$
Company controlled by shareholders and directors		
Administration and general expenses - Rent	153,287	257,295

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.

Since April 30, 2009, the Corporation has not entered into further related party transactions, as the shareholders and directors sold their interest in the company that owns the building leased by the company to the Corporation.

19. COMMITMENTS

[a] Leases

In addition to the commitments described elsewhere in the consolidated financial statements, the Corporation has signed leases for its place of business and some property, plant and equipment. These leases expire from 2009 to 2014 and commit the Corporation to payments totalling \$333,365. The minimum lease payments for the next five years are as follows:

	\$
2010	83,360
2011	82,861
2012	72,144
2013	60,000
2014	35,000

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2009 and 2008

20. FINANCIAL INSTRUMENTS

Fair value

Fair value requiring valuation techniques and assumptions. Fair value amounts reported in these consolidated financial statements represent the Corporation'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 current portion of liability component of convertible debentures are reasonable estimates of their fair values because of the short maturities of these instruments.

[ii] Long-term financial liabilities

The fair values of the liability component of the convertible debentures and long-term debt are estimated using a discount rate of 18% as at September 30, 2009 and 2008. The fair value of long-term financial liabilities approximates their carrying value.

Classification

Financial instruments and their respective carrying values and fair values are as classified as follows:

	2009		2008	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
FINANCIAL ASSETS				
Held for trading:				
Cash and cash equivalents	329,944	329,944	370,821	370,821
Loans and receivables				
Accounts receivable [note 5]	205,450	205,450	295,431	295,431
Total financial assets	535,394	535,394	666,252	666,252

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2009 and 2008

20. FINANCIAL INSTRUMENTS [Cont'd]

Classification [Cont'd]

	2009		2008	
	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
FINANCIAL LIABILITIES				
Other financial liabilities:				
Short-term loan	30,000	30,000	—	—
Accounts payable and accrued liabilities ⁽¹⁾	270,938	270,938	741,678	741,678
Long-term debt	105,282	105,282	85,155	85,155
Convertible debentures	3,705,578	3,705,578	3,133,111	3,133,111
Total financial liabilities	4,111,798	4,111,798	3,959,944	3,959,944

⁽¹⁾ Excludes provisions amounting to \$54,268 as at September 30, 2009 [\$57,712 in 2008], as these amounts are not contractual obligations to pay cash.

Interest rate risk

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

Credit risk

Credit risk is the risk of a financial loss arising from the failure of a counterparty to a financial instrument to meet its contractual obligations.

Credit risk affects cash and cash equivalents. However, this risk is mitigated by the fact that the Corporation has implemented an investment policy which management complies with in investing any surplus cash resources. The policy's objectives consist mainly of achieving the desired return, safeguarding invested capital and maintaining adequate liquidity. As at September 30, 2009, cash and cash equivalents are held in checking accounts with Canadian financial institutions.

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2009 and 2008

20. FINANCIAL INSTRUMENTS [Cont'd]

Credit risk [Cont'd]

This risk may also affect the Corporation's accounts receivable. In order to reduce this risk, the Corporation performs credit evaluations of its clients and regularly reviews their credit limits. Adequate provisions are established and maintained to cover all identified risks. As at September 30, 2009, two clients represented 98% of accounts receivable [one client represented 96% of accounts receivable as at September 30, 2008]. The Corporation's trade receivables are allocated as follows:

Current \$	30-89 days \$	90 days and more \$	Total \$
178,069	307	1,824	180,200

The Corporation's maximum credit risk exposure is equal to the carrying values of its cash and cash equivalents and trade receivables.

Historically, the Corporation has not suffered any material losses related to credit risk.

Currency risk

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

The Corporation is exposed to currency risk relative to the U.S. dollar as shown in the following table:

	U.S. dollars	
	2009 \$	2008 \$
Accounts receivable	—	266,219

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2009 and 2008

20. FINANCIAL INSTRUMENTS [Cont'd]

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 table details the contractual undiscounted cash flows of financial liabilities as at September 30, 2009:

	Maturities		
	Less than 1 year \$	1 to 5 years \$	More than 5 years \$
Short-term loan	30,000	—	—
Accounts payable and accrued liability	270,938	—	—
Long-term debt	17,751	117,115	27,369
Debenture and convertible debentures	2,100,000	1,000,000	—
	<u>2,418,689</u>	<u>1,117,115</u>	<u>27,369</u>

21. COMPARATIVE FIGURES

Certain figures from the 2008 financial statements have been reclassified to conform to the current year presentation.

22. SUBSEQUENT EVENT

The Corporation announced on October 2, 2009 that it has signed a letter of intent to acquire all issued and outstanding shares of a North American company (the “Target”) which supplies wear parts for heavy machinery in the construction, agricultural and other industries. Given the nature of the proposed transaction, the name of the Target will only be announced at closing.

The transaction is conditional on [1] obtaining appropriate financing, [2] approval from competent regulatory authorities and [3] due diligence with regard to legal, accounting, financial, technological and environmental matters to the Corporation’s satisfaction.

Power Tech Corporation Inc.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2009 and 2008

22. SUBSEQUENT EVENT [Cont'd]

The transaction price is \$3,800,000 in cash, of which \$3,300,000 will be payable at the closing date and \$500,000 as a purchase price holdback to cover closing adjustments and certain other representations and warranties. In addition to the cash payment, the Corporation will issue 1,500,000 common shares at closing and potentially \$200,000 worth of its common shares depending on the performance of the Target during the three fiscal years following the transaction.