POWERTECH INDUSTRIES INC.

REPORT AND FINANCIAL STATEMENTS

March 31, 2005 and 2004

A PARTNERSHIP OF INCORPORATED PROFESSIONALS

AMISANO HANSON
CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Shareholders,
Powertech Industries Inc.

We have audited the balance sheets of Powertech Industries Inc. as at March 31, 2005 and 2004 and the statements of operations, deficit and cash flows for the years ended March 31, 2005 and 2004. 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 accounting principles. 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 financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2005 and 2004 and the results of its operations and its cash flows for the years ended March 31, 2005 and 2004 in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada
July 26, 2005

"AMISANO HANSON"
Chartered Accountants

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POWERTECH INDUSTRIES INC.
BALANCE SHEETS
March 31, 2005 and 2004

ASSETS	2005	2004
Current		
Cash	$ 85,889	$ 930
Amounts receivable	10,181	29,567
Prepaid expenses	2,250	1,987
Current assets of discontinued operations – Notes 3 and 7	-	884,184
	98,320	916,668
Deferred development costs – Note 4	-	588,076
Patents – Note 5	-	61,238
Long-term assets of discontinued operations – Note 3	-	278,856
	$ 98,320	$ 1,844,838

LIABILITIES

	2005	2004
Current		
Accounts payable and accrued liabilities – Notes 7 and 10	$ 77,146	$ 62,881
Due to the former controlling shareholder – Note 7	-	9,288,040
Current liabilities of discontinued operations – Notes 3 and 7	-	1,300,571
	77,146	10,651,492
Long-term liabilities of discontinued operations – Note 3	-	43,500
	77,146	10,694,992

SHAREHOLDERS' EQUITY (DEFICIENCY)

	2005	2004
Share capital – Notes 6 and 10	10,652,571	10,652,571
Share subscriptions – Note 6	92,500	-
Deficit	(10,723,897)	(19,502,725)
	21,174	(8,850,154)
	$ 98,320	$ 1,844,838

Nature and Continuance of Operations – Note 1
Commitments – Notes 6 and 10
Subsequent Events – Note 10
Contingency – Note 11

APPROVED ON BEHALF OF THE BOARD:

"Doug Eacrett" Director *"John Toljanich"* Director

SEE ACCOMPANYING NOTES

POWERTECH INDUSTRIES INC.
STATEMENTS OF OPERATIONS
for the years ended March 31, 2005 and 2004

	2005	2004
Revenues		
Interest – Note 7	$ 652,015	$ 920,871
Royalties – Note 7	71,228	71,898
	723,243	992,769
Expenses		
Audit and accounting fees	31,129	27,598
Amortization of deferred development costs	174,928	233,237
Amortization of patents	25,715	31,589
Consulting fees – Note 7	16,400	136,000
Filing fees (recovery)	4,663	(19,274)
Interest – Note 7	455,939	652,579
Legal fees	50,332	15,889
Office and miscellaneous	3,019	4,741
Rent – Note 7	2,668	3,557
Shareholder information	4,068	3,691
Transfer agent fees	10,521	5,679
Travel and promotion	11,165	-
	790,547	1,095,286
Loss from operations	(67,304)	(102,517)
Other items		
Write-off of deferred development costs – Note 4	(413,148)	-
Loss on sale of patents – Notes 3 and 5	(48,072)	-
Gain on forgiveness of loan by former controlling shareholder – Note 3	9,454,564	-
Income (loss) from continuing operations	8,926,040	(102,517)
Loss from discontinued operations – Schedule 1	(147,212)	(2,592,945)
Net income (loss) for the year	$ 8,778,828	$ (2,695,462)
Basic and diluted earnings (loss) per share from continuing operations	$ 0.73	$ (0.01)
Basic and diluted earnings (loss) per share from discontinued operations	$ (0.01)	$ -
Basic and diluted earnings (loss) per share	$ 0.72	$ (0.21)
Weighted average number of shares outstanding	12,203,154	12,203,154

SEE ACCOMPANYING NOTES

POWERTECH INDUSTRIES INC.
STATEMENTS OF DEFICIT
for the years ended March 31, 2005 and 2004

	2005	2004
Deficit, beginning of the year	$ (19,502,725)	$ (16,807,263)
Net income (loss) for the year	8,778,828	(2,695,462)
Deficit, end of the year	$ (10,723,897)	$ (19,502,725)

SEE ACCOMPANYING NOTES

POWERTECH INDUSTRIES INC.
STATEMENTS OF CASH FLOWS
for the years ended March 31, 2005 and 2004

	2005	2004
Operating Activities		
Income (loss) from continuing operations	$ 8,926,040	$ (102,517)
Items not affecting cash:		
Interest	(652,015)	(920,871)
Royalties	(71,228)	(71,898)
Amortization of deferred development costs	174,928	233,237
Amortization of patents	25,715	31,589
Interest	455,939	652,579
Write-off of deferred development costs	413,148	-
Loss on sale of patents	48,072	-
Gain on forgiveness of loan by former controlling shareholder	(9,454,564)	-
	(133,965)	(177,881)
Changes in non-cash working capital balances related to operations:		
Amounts receivable	19,386	(26,707)
Prepaid expenses	(263)	150
Accounts payable and accrued liabilities	14,265	20,421
	(100,577)	(184,017)
Investing Activities		
Advances to subsidiary	(505,000)	(1,333,500)
Patent costs	(12,549)	(19,821)
	(517,549)	(1,353,321)
Financing Activities		
Advances from former controlling shareholder	610,585	1,532,000
Share subscriptions	92,500	-
	703,085	1,532,000
Increase (decrease) in cash from continuing operations	84,959	(5,338)
Increase in cash from discontinued operations – Note 3	16,149	34,814
Increase in cash during the year	101,108	29,476
Bank indebtedness, beginning of the year	(15,219)	(44,695)
Cash (bank indebtedness), end of the year	$ 85,889	$ (15,219)

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SEE ACCOMPANYING NOTES

Continued

POWERTECH INDUSTRIES INC.
STATEMENTS OF CASH FLOWS
for the years ended March 31, 2005 and 2004

	2005	2004
Cash (bank indebtedness) consists of:		
Cash from continuing operations	$ 85,889	$ 930
Bank indebtedness from discontinued operations	-	(16,149)
	$ 85,889	$ (15,219)
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	$ -	$ -
Income taxes	$ -	$ -

Non-cash Transaction – Note 12

SEE ACCOMPANYING NOTES

Schedule 1

POWERTECH INDUSTRIES INC.

STATEMENTS OF DISCONTINUED OPERATIONS

for the years ended March 31, 2005 and 2004

	2005	2004
Sales – Notes 7 and 9	$ 2,849,106	$ 2,875,907
Cost of sales		
Manufacturing overhead – Note 7	490,859	672,380
Materials – Note 7	1,479,522	1,545,104
Royalties	71,228	71,898
Wages and benefits	697,604	1,043,999
	2,739,213	3,333,381
Income (loss) before production amortization	109,893	(457,474)
Production amortization		
Amortization of capital assets	34,772	128,420
Amortization of deferred development costs	-	20,232
	34,772	148,652
Income (loss) before general and administrative expenses	75,121	(606,126)
General and administrative expenses		
Accounting and legal fees	45,789	9,892
Advertising and promotion	12,809	43,703
Amortization of capital assets	154,624	92,649
Bad debts (recovery)	(5,180)	61,604
Bank charges and interest	11,676	36,015
Insurance	20,551	27,372
Interest	652,015	920,871
Management fees – Note 7	75,000	100,000
Office, rent and telephone	139,401	205,806
Travel and trade shows	116,265	170,281
Wages and benefits	222,625	318,626
	1,445,575	1,986,819
Loss from discontinued operations before other item	(1,370,454)	(2,592,945)
Other item		
Gain on disposal of subsidiary – Note 3	1,223,242	-
Loss from discontinued operations	$ (147,212)	$ (2,592,945)

Note 1 Nature and Continuance of Operations

The Company, through a wholly owned subsidiary, Gasmaster Industries Inc., ("Gasmaster") was developing and marketing the Pulse Combustor Boiler pursuant to proprietary ownership of patents applied for and granted. On December 17, 2004, the Company sold its investment in Gasmaster and its patents relating to the Pulse Combustor Boiler to the controlling shareholder of the Company in exchange for the controlling shareholder forgiving its loans to the Company. The Company is currently seeking new business opportunities.

The Company was incorporated in British Columbia on February 10, 1984. The Company's shares are publicly traded on the NEX board of the TSX Venture Exchange, effective June 10, 2005.

These financial statements have been prepared on a going concern basis. The Company has yet to achieve profitable operations and has accumulated losses of $10,723,897 since incorporation. The Company's ability to continue as a going concern is dependent upon its ability to generate profitable operations in the future or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. The outcome of these maters cannot be predicted with any certainty at this time and raise substantial doubt that the Company will be able to continue as a going concern. These financial statements do not include adjustments to the amounts and classification of assets and liabilities that may be necessary should the Company be unable to continue as a going concern.

Note 2 Significant Accounting Policies

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates which have been made using careful judgement. Actual results may differ from these estimates.

The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

a) Principles of Consolidation

The financial statements for the year ended March 31, 2004 include the accounts of the Company and the accounts of its discontinued wholly-owned subsidiary, Gasmaster Industries Inc. ("Gasmaster").

Note 2 Significant Accounting Policies – (cont'd)

a) Principles of Consolidation – (cont'd)

On December 17, 2004, the Company disposed of its interest in Gasmaster and consequently the financial statements for the year ended March 31, 2005 include the accounts of Gasmaster for the period from April 1, 2004 to December 17, 2004.

b) Inventory

Inventory is valued at the lower of cost and net realizeable value by management. The Company uses a job costing system based on specific cost identification in manufacturing boilers.

c) Capital Assets and Amortization

Capital assets are recorded at cost and amortization is recorded using the following rates:

Capital lease equipment	6 years straight-line
Computer equipment	30% declining balance
Leasehold improvements	10 years straight-line
Manufacturing equipment	6 years straight-line
Office equipment	20% declining balance
Promotional boilers	2 years straight-line

Amortization is recorded at one-half rates in the year of acquisition.

d) Deferred Development Costs and Amortization

Costs that are directly related to the development of the Pulse Combustor Boiler have been deferred, net of government assistance received. Deferred development costs are amortized on a straight line basis over six years with additions during the year amortized at one-half the rate.

e) Patent Costs and Amortization

Costs of patents applied for and granted related to the Pulse Combuster Boiler have been deferred. Patent costs are amortized on a straight-line basis over six years with additions during the year amortized at one-half the rate.

f) Trademark Costs and Amortization

Costs related to trademark applications for Gasmaster Industries Inc. have been deferred. Once granted, trademark costs will be amortized on a straight-line basis over six years with additions during the year amortized at one-half rate.

Note 2 Significant Accounting Policies – (cont'd)

g) Revenue Recognition and Warranty Provision

Sales revenue with respect to boiler sales is recorded on a completed contract basis. Provision for potential warranty claims is provided for at the time revenue is recognized at a rate of 2% of sales based on the Company's warranty terms and claims experience.

h) Basic and Diluted Loss Per Share

Basic earnings per share are computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflect the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method and the effect of convertible securities by the "if converted" method. Fully dilutive amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred. Accordingly, there is no difference in the amounts presented for basic and diluted loss per share.

i) Financial Instruments

The carrying values of cash, accounts and amounts receivable, bank indebtedness, accounts payable and accrued liabilities and due to the former controlling shareholder approximate fair value because of the short-term maturity of those instruments. The fair value of long-term debt also approximates its carrying amount. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

j) Income Taxes

The Company accounts for income taxes by the asset and liability method. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

k) Foreign Currency Translation

Monetary items denominated in a foreign currency are translated into Canadian dollars at exchange rates prevailing at the balance sheet date and non-monetary items are translated at exchange rates prevailing when the assets were acquired or obligations incurred. Foreign currency denominated revenue and expense items are translated at exchange rates prevailing at the transaction date. Gains or losses arising from the translations are included in operations.

Note 3 Discontinued Operations – Schedule 1

On December 17, 2004, the Company disposed of its wholly-owned subsidiary, Gasmaster Industries Inc. ("Gasmaster") and patents related to Gasmaster's business, both of which were transferred to the former controlling shareholder of the Company at a fair market value of $900,000. The former controlling shareholder agreed to deduct that amount from the indebtedness due with the remaining balance of the indebtedness owing to the former controlling shareholder to be written-off. The loss related to Gasmaster's operations has been disclosed up to the date of disposal as loss from discontinued operations.

The gain on disposal of the Gasmaster shares was determined as follows:

Proceeds on disposal of subsidiary	$ 900,000
Net asset deficiency of subsidiary:	
Cash	174,507
Accounts receivable	324,846
Inventory	451,608
Prepaid expenses	64,802
Capital assets	128,305
Trademarks	2,666
Accounts payable and accrued liabilities	(1,196,699)
Bank loan	(58,000)
Due to shareholder	(215,277)
	(323,242)
Gain on disposal of subsidiary	$ 1,223,242

Note 3 Discontinued Operations – Schedule 1 – (cont'd)

At March 31, 2005 and 2004, the balance sheets include the following amounts related to the discontinued operations of Gasmaster:

	2005	2004
Accounts receivable	$ -	$ 500,414
Inventory	-	359,802
Prepaid expenses	-	23,968
Current assets of discontinued operations	$ -	$ 884,184
Capital assets	$ -	$ 275,574
Trademarks	-	3,282
Long-term assets of discontinued operations	$ -	$ 278,856
Bank indebtedness	$ -	$ 16,149
Bank loan	-	58,000
Accounts payable and accrued liabilities	-	1,020,329
Due to related parties	-	206,093
Current liabilities of discontinued operations	$ -	$ 1,300,571
Bank loan	$ -	$ 43,500
Long-term liabilities of discontinued operations	$ -	$ 43,500

Note 3 Discontinued Operations – Schedule 1 – (cont'd)

Cash flows from discontinued operations are as follows:

	2005	2004
Operating Activities		
Loss from discontinued operations	$ (147,212)	$(2,592,945)
Items not involving cash:		
Amortization of capital assets	189,396	221,069
Amortization of deferred development costs	-	20,232
Royalties	71,228	71,898
Interest	652,015	920,871
Gain on disposal of subsidiary	(1,223,242)	-
Changes in non-cash working capital balances consist of:	-	-
Accounts receivable	175,568	(316,949)
Inventory	(91,806)	150,274
Prepaid expenses	(40,834)	29,481
Accounts payable and accrued liabilities	176,370	222,309
	(238,517)	(1,273,760)
Financing Activities		
Due to related parties	9,184	55,866
Repayment of long-term debt	(43,500)	(58,000)
Advances from parent company	505,000	1,333,500
	470,684	1,331,366
Investing Activity		
Acquisition of capital assets	(41,512)	(22,792)
Increase in cash from discontinued operations prior to disposal	190,655	34,814
Cash balance of subsidiary on disposal	174,507	-
Increase in cash from discontinued operations during the year	$ 16,148	$ 34,814

Note 4 Deferred Development Costs

	2005	2004
Cost	$ -	$ 1,399,421
Less: accumulated amortization	-	(811,345)
	$ -	$ 588,076

During the year ended March 31, 2005, the Company disposed of its interest in Gasmaster and its business of the Pulse Conbuster Boiler and consequently wrote-off the related deferred development costs.

Note 5 Patents

	2005	2004
Cost	$ -	$ 199,445
Less: accumulated amortization	-	(138,207)
	$ -	$ 61,238

During the year ended March 31, 2005, the Company disposed of its interest in Gasmaster and its patents.

Note 6 Share Capital – Note 10

Authorized:

100,000,000 Class A common shares without par value
50,000,000 Class B preferred shares without par value

Escrow:

At March 31, 2005, there were 1,700,000 Class A common shares held in escrow by the Company's transfer agent. The terms of the escrow agreement provide that one performance share will be released from escrow for each $0.115 of "cumulative cash flow" earned by the Company as defined by the TSX Venture Exchange. The release of these shares is subject to the approval of the regulatory authorities.

Issued:

	Number	Amount
Balance, March 31, 2003, 2004 and 2005	13,903,154	$ 10,652,571

Note 6 Share Capital – Note 10 – (cont'd)

Share Subscriptions:

At March 31, 2005, the Company had received $92,500 as share subscriptions with respect to a proposed private placement at $0.30 per share.

Note 7 Related Party Transactions – Note 3

a) During the years ended March 31, 2005 and 2004, the Company incurred the following transactions with directors of the Company or with companies with directors in common:

	2005	2004
Revenues:		
Interest	$ 652,015	$ 920,871
Royalties	71,228	71,898
Sales – discontinued operations	-	12,556
	$ 723,243	$ 1,005,325
Expenses:		
Consulting fees	$ 2,000	$ 126,000
Interest	455,939	652,579
Manufacturing overhead – discontinued operations	13,034	25,367
Management fees – discontinued operations	75,000	100,000
Materials – discontinued operations	15,661	12,805
Rent	2,668	3,557
	$ 564,302	$ 920,308

These charges were measured by the exchange amount which is the amount agreed upon by the transacting parties.

b) At March 31, 2005 and 2004, accounts receivable of the discontinued operations include $Nil (2004: $3,895) due from a company with directors in common.

c) At March 31, 2005 and 2004, accounts payable and accrued liabilities include $1,498 (2004: $301) due to directors of the Company or to companies with directors in common.

Note 7 Related Party Transactions – Note 3 – (cont'd)

d) At March 31, 2005 and 2004, accounts payable and accrued liabilities of the discontinued operations include $Nil (2004: $45,286) due to directors of the Company or to companies with directors in common.

e) At March 31, 2004, the amounts due to the former controlling shareholder of the Company bear interest at prime plus 4% per annum and were unsecured.

Note 8 Income Taxes

The following table summarizes the components of the Company's future tax assets at March 31, 2005:

Future tax asset components	
Non-capital losses	$ 449
Scientific research expenditures	673,839
Capital losses	6,363,161
	$ 7,037,449
Future tax assets	$ 1,373,460
Investment tax credits	150,609
	1,524,069
Valuation allowance for future tax assets	(1,524,069)
	$ -

The amount taken into income as a future tax asset must reflect that portion of the tax asset which is likely to be realized from future operations. Considering the Company's cumulative losses in recent years, the Company has chosen to provide an allowance of 100% against all available future tax assets, regardless of their terms of expiry.

Investment tax credits can be carried forward and applied against future income taxes payable. These investment tax credits expire as follows:

2010	$ 85,585
2011	65,024
	$ 150,609

Scientific research expenditures can be carried forward indefinitely and applied against future taxable income.

Non-capital losses can be carried forward and applied against future taxable income. The non-capital loss expires in 2009.

Capital losses can be carried forward indefinitely and applied against future capital gains.

Note 9 Segmented Information

The Company's discontinued operations, Gasmaster, has sales in Canada, the United States of America and Saudi Arabia. Revenues from sales by geographic segment are as follows:

	2005	2004
Canada	$ 1,161,559	$ 1,343,663
United States	1,659,748	1,446,850
Saudi Arabia	27,799	85,394
	$ 2,849,106	$ 2,875,907

The amounts disclosed for 2005 are for the period from April 1, 2004 to the date of disposal, December 17, 2004.

Note 10 Subsequent Events

Subsequent to March 31, 2005, the Company:

a) Issued 400,000 common shares at $0.25 per share pursuant to a private placement of 400,000 units for proceeds of $100,000 ($92,500 of which was received prior to March 31, 2005). Each unit consisted of one common share and one share purchase warrant entitling the holder thereof the right to purchase an additional common share at $0.30 for two years.

b) Issued 133,333 common shares at $0.30 per share pursuant to a debt settlement agreement to settle accounts payable outstanding at March 31, 2005 of $40,000.

Note 11 Contingency

A possible claim has been indicated by the former president of the Company. The amount of the possible claim has not been determined. The Company's former controlling shareholder has agreed to indemnify the Company from any damages related to this possible claim.

Note 12 Non-cash Transaction

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows. During the year ended March 31, 2005, the Company disposed of its patents and its wholly-owned subsidiary, Gasmaster to the Company's former controlling shareholder, in part, for proceeds of $900,000, which was offset against amounts owed to its former controlling shareholder. This transaction was excluded from the statement of cash flows.

Note 13 Comparative Figures

Certain comparative figures as at March 31, 2004 and for the year then ended have been reclassified to conform with the financial statement presentation adopted for the year ended March 31, 2005.