August 30, 2006
TRI-STATE CAPITAL

RESEARCH REPORT

United States – Energy
Alternative Energy

POWER AIR, CORPORATION (OTC BB:PWAC)

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Recent Price: **$1.30**
Target Price: **$2.60**
(12 month)

SPECULATIVE POSITIVE RATING

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'Greenfield' Opportunity for Indoor Power Generation Market

Company Overview

Power Air Inc. (OTC BB:PWAC) is engaged in the business of developing, manufacturing and marketing fuel cell based commercial products. Power Air has the exclusive worldwide license to zinc-air fuel cell technology (ZAFC) that has been developed at the Department of Energy's Lawrence Livermore National Laboratory, in Livermore, California, for all fields of use (portable, stationary, light mobility and transportation applications) and commercialization.

POWERAIR™
www.poweraircorp.com

Power Air Corporation
(all figures in Millions)

52 Week Hi/Lo Range	2.50/0.60
Fiscal Year End	30-Sep
Shares Outstanding (6/30/2006)	44.8
Float (approximately)	19.9
Share price (08/25/2006)	1.150
Market Capitalization	51.5
Average Volume (3 months)	0.127
Insider Ownership	65%
Institutional Ownership	0%
Enterprise Value (EV)	49.85
Long Term Debt (06-30-06)	0.000
Total Cash (06-30-06)	1.659

	09/30/2006	09/30/2007
	FY2006 E	FY2007 E
Earnings Per Share (EPS)	-0.085	-0.093
Book Value ($/share)	-0.045	-0.138

	FY2006 E	FY2007 E
Total Revenue	0.000	0.000
Cost of Sales	0.000	0.000
Gross Profit/Loss	0.000	0.000
Operating expenditures	3.787	4.165
Income/Loss from Operations	-3.787	
Net Interest Expense		
Tax Items		
Net Income	-3.787	-4.165

NA = Not applicable/Not Available.
A = Actual Reported figures E = Estimates

Balance Sheet & Financial Statement Extracts (6/30/2006)

Current Assets	1.783
Current Liabilities	0.085
Total Assets	1.877
Accumulated Deficit	9.571
Total Shareholders Equity	1.792

Capital Structure (as at 06-30-06)

Authorized Common Stock	375 000 000

- Power Air is poised to become the **first alternative energy company to produce a fuel cell based generator for the mass consumer market** - one that can be placed and operated indoors or out. In the midst of a critical oil and gasoline supply crisis, Power Air's fuel cell is a practical alternative to gas or diesel generators.
- Power Air's fuel cell has numerous commercial applications, such as portable **power packs, emergency generators, back-up power for telecom and utility sites, and UPS** (uninterruptible power supply) for buildings, data centers, and server rooms. Alternatively, **Auxiliary Power Units (APU's)** for RV's, trucks, boats and other light transportation vehicles can also benefit from the ZAFC. The unique technology and low manufacturing cost will compete with incumbent generator and battery products, internal combustion engines (generators) and with conventional fuel cells.
- **Allied Business Intelligence** reports that the **Fuel Cell market will top $16 billion** in total sales by 2011, achieving compound annual growth **of 51%** from **2005-2011.**
- PWAC's technology has **advantages over batteries and internal combustion engines not offered by conventional fuel cells.**
- Power Air is positioned to **grab a substantial percentage of this market**, by diligently pursuing commercial applications that will allow the company to rapidly generate substantial revenue. To this end, **Power Air is forging new relationships with OEM partners to collaborate with** in the **portable, stationary, light mobility, and light transportation markets** for fuel cells.
- Power Air announced in June of 2006 that it **is collaborating** on the co-development and commercialization of an **emergency back-up generator** product for North America with **Schrader Bridgeport International**.
- PWAC intends to exploit the shortcomings of the current generator solution by introducing, the **world's first re-fuelable portable emergency generator** that can **operate indoors, silently, safely and emissions-free.** Proprietary research indicates there are over **42 million potential sites** in North America, and over **390 million worldwide**, **for indoor generators that cannot be addressed with current technology.** As opposed to the traditional generator market (installed base of **13.8 million**), the indoor generator market is a **"Greenfield"** opportunity.
- PWAC expects its **first product announcement to occur in Q4 FY2006**. Substantial unit sales are expected to **begin in FY2007** and grow significantly from 2008 to 2010.
- **PWAC appears to have a very bright future based on its exclusive rights of its Zinc-Air Fuel Cell technology that can be used in numerous applications. Its collaboration agreement with Schrader-Bridgeport holds great promise. We have a favorable view of the early positioning and fuel cell technology of PWAC, the ability to execute and extract benefit from its business model. Even though we do not expect any revenues for several quarters we believe investors will focus on achievement of milestones. It is clear that a major opportunity' exists for the company in the indoor power generator market where there are prospects for PWAC to create a key presence and defendable niche. Our 12-month target price is set at $2.60 per share, which is based on a forward price to sales approach. See the section titled INVESTMENT THESIS & RECOMMENDATION for more in-depth discussion (Page 14-16)**

See Appendix A-1 for Analyst Certification and Important Disclosures.

COMPANY

Power Air Corp. (OTC BB:PWAC) is an alternative energy company, **which holds exclusive worldwide licensing rights for the Zinc Air Fuel Cell (ZAFC)**. PWAC intends to be the first commercially viable fuel cell company, powering low cost, silent, zero emission fuel cell based products developed with OEM partners for portable, stationary, light mobility and transportation markets. PWAC will initially target the Back-up and Emergency Generator market with both portable units.

The ZAFC was developed at the world-renowned Lawrence Livermore National Laboratory (LLNL) in California. By solving longstanding issues related to power consistency and by making their units re-fuelable, the scientists at LLNL developed a power generation and storage technology that dramatically changes the competitive landscape for fuel cells.

Power Air Corporation, formerly Fortune Partners, Inc, was incorporated in the State of Nevada on August 26, 2004. Since becoming publicly traded via a reverse merger in October 2005, Power Air has raised of $4 million from sophisticated investors who are convinced of the commercial potential of its exclusive Zinc Air Fuel Cell (ZAFC) technology. The company has achieved most of its early targets and Power Air's Board is now confident that PWAC is now ready for more extensive diligence from institutional investors.

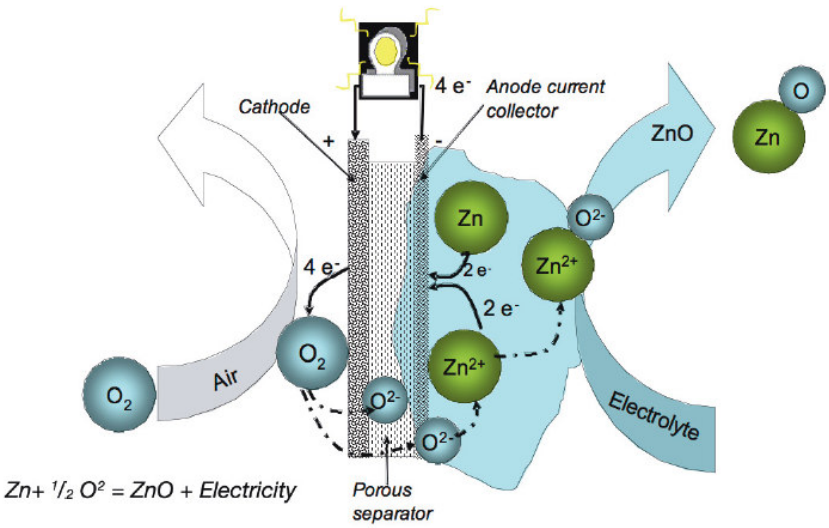
Power Air recently signed an **OEM partnering agreement** with **Schrader-Bridgeport** for collaboration on an **Emergency Back-up Generator** replacement product for the North American market. The company **continues to develop its core ZAFC-stack through extensive testing and rework of the design**. With oil prices still going up and more and more avenues are being considered to move away from traditional fossil-fuel dependence toward alternative–fuel technology, the company's novel fuel cell design that **functions on Zinc (as opposed to Hydrogen)** has attracted a lot of positive attention. Add to that a well-defined product and market with defensible advantages, the company appears to have a very bright future.

ZINC AIR FUEL CELL (ZAFC) TECHNOLOGY

The ZAFC was created by LLNL, using internal support and additional support from the International Lead Zinc Research Organization and the U.S. Department of Energy (DOE). **To date, over US $10 million has been invested in this technology,** which includes a capital raising event of $2 million that closed in June 2006. From 1992 to 1997, LLNL and the DOE spent over $1 million on the original research concept and development of the ZAFC. More recently PWAC's largest shareholders – Power Air Dynamics Ltd. (PADL) and Power Air Tech, Inc. (PAT) – **invested a further $5 million** to bring the ZAFC to the prototype level.

LLNL first demonstrated "proof of concept" with a 6 Volt 300 Watt unit on a Santa Barbara Bus in 1995. The Argonne National Laboratory independently tested the ZAFC under USABC test protocols. A scaled up PWAC Portable 12 Volt 1kW unit was successfully demonstrated in Beijing, China in 2001. **The ZAFC was independently valued in excess of $20 million in 2004**; In October 2005, PADL and PAT completed a merger and reversed the company into a publicly traded entity, raising over $2 million in new funding to begin commercializing the technology.

PWAC Technology – Inside the ZAFC



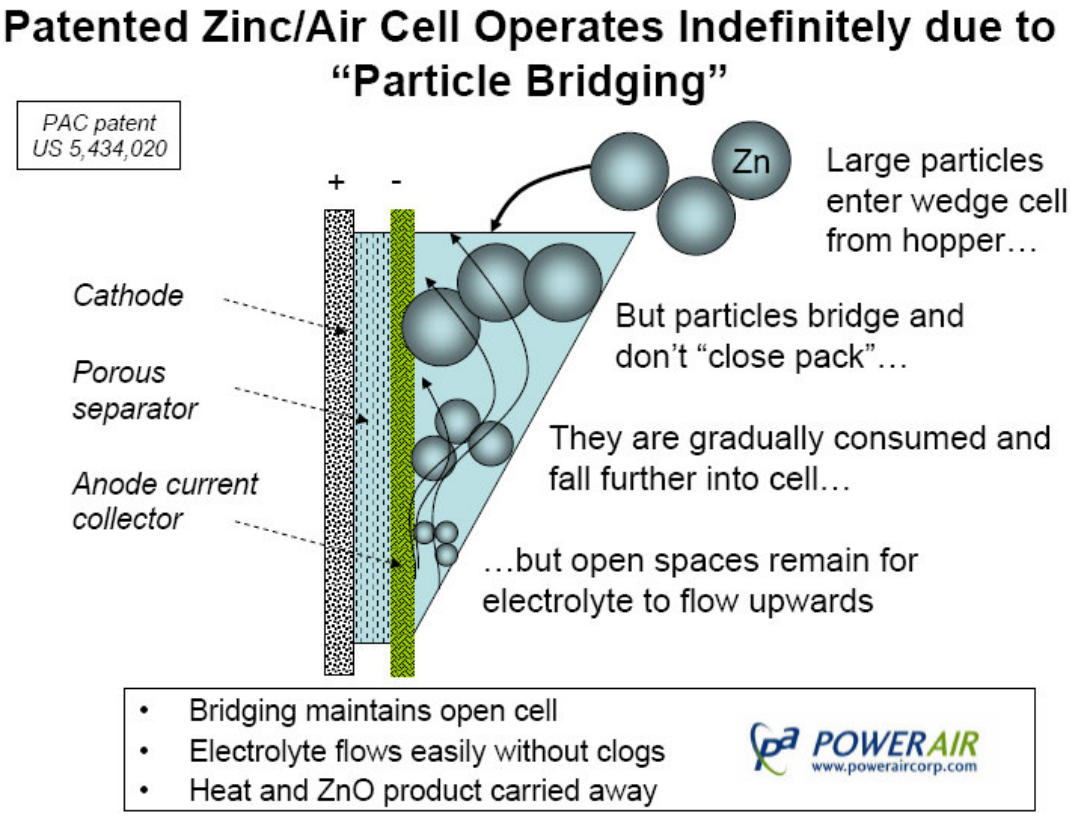
ZAFC Technology

The ZAFC is a metal oxide fuel cell using relatively simple physical chemistry.

It uses a **combination of atmospheric oxygen and zinc pellets** in a liquid alkaline electrolyte to generate electricity with by products of zinc oxide and potassium zincates. In operation, the fuel cell consumes all of the zinc; and is operationally quiet, providing instantaneous stable electrical energy with zero greenhouse gas emissions.

The ZAFC single unit consists of an overlying hopper connected by conduits to an electrochemical cell. Electrolyte is flowed upwards through the patented cell design to remove waste heat and reaction products.

The hoppers may be refueled by flowing slurry of zinc particles and electrolyte in channels above the cells.



Competitive Advantages

Conventional polymer electrolyte membrane (PEM) fuel cells are costly to produce and operate, and the fuel **(hydrogen – an explosive, flammable, compressed gas) is difficult to distribute, store and site.** PWAC's technology has advantages over batteries and internal combustion engines not offered by conventional fuel cells:

- **Lower cost components** than conventional PEM fuel cells, including cathode catalysts, and anode current collector.
- PWAC's **fuel is not compressed and is readily available**; thereby reducing distribution, storage and siting issues associated with hydrogen.
- The low cost **Portable Emergency Generator ("PEG")** is suitable for indoor use. It is a zero-emission, durable, light-weight fuel cell that operates silently and effectively.
- PEG's **can be quickly refueled** by an exchange of electrolyte and/or addition of zinc vs. the much slower electric recharge required by batteries.
- PWAC's **fuel solution allows for continuous operation** with the possibility of refueling under load; the fuel reaction product, electrolyte saturated with zinc oxide or zincate, can be recycled for production of new fuel and fresh electrolyte.
- PEG's are **environmentally friendly** with no hazardous emissions.

BUSINESS MODEL

PWAC will focus resources on **First to Market applications** offering its exclusive technology to OEM's serving those markets. The lifetime and durability requirements for these First to Market applications are less demanding than those requiring long life time and established fuel infrastructures. PWAC will support the OEM systems integration/ testing/ product development/ codes & standards activities and participate with OEMs in end-user field trials. PWAC will establish low-cost, high volume fuel cell production capabilities that minimize capital outlay, fast-track products to market and support the OEM's in the Distribution and Service of the end-user products. By partnering with OEM's and Zinc producers, Power Air Corp. will reduce the time to commercialize its own technology by leveraging:

- The OEM's market intelligence, specifications requirements, systems integration, and product development expertise;
- The OEM's customer base for field trials and feedback;
- The OEM's design, certification, and regulatory expertise;
- The OEM's marketing, sales, distribution, installation, and service capabilities;
- The Zinc producer's materials and recycling expertise and existing facilities;

By engaging OEM and Zinc partners, PWAC will be free to focus on cost reduction and quality of it's core technology offering.

ZAFC Advantages

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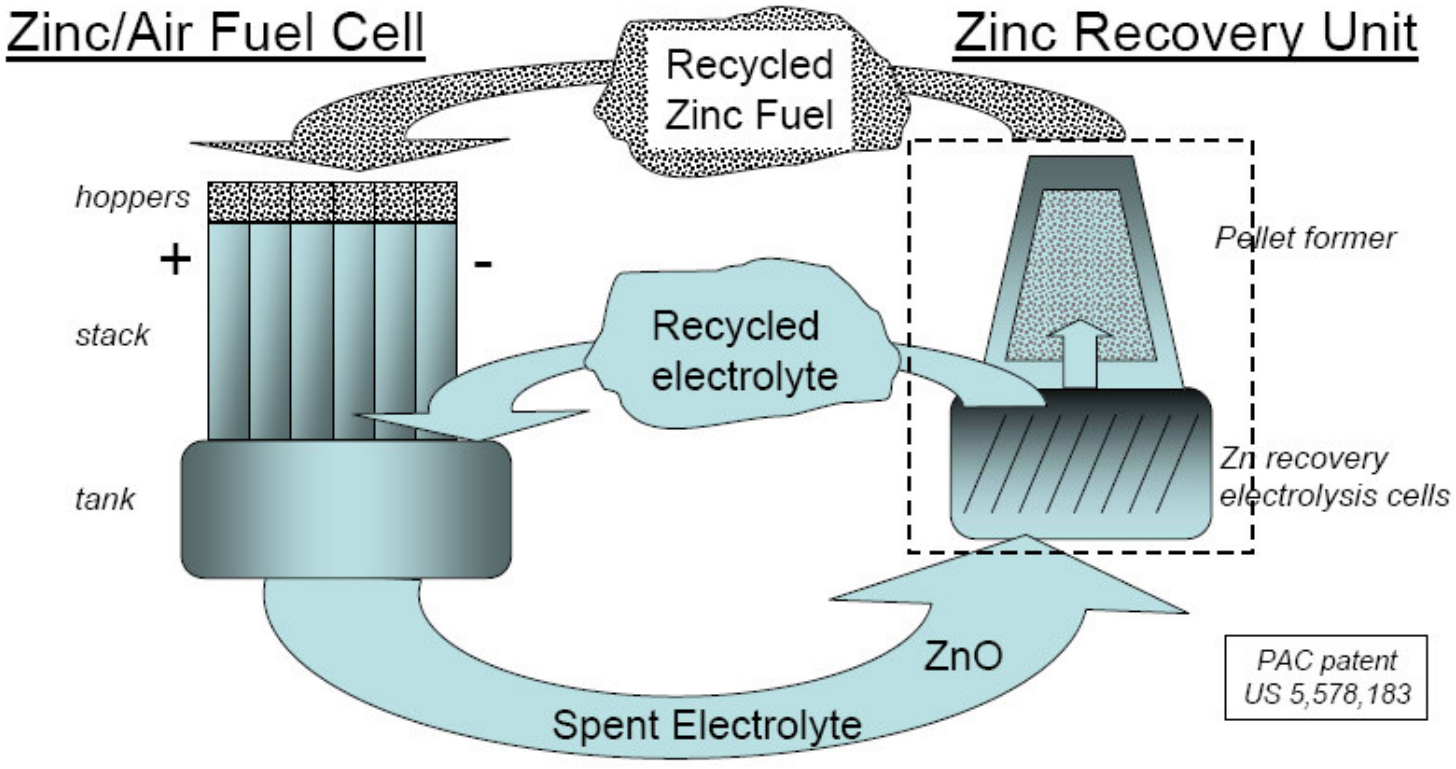
Key: + advantage; 0 N/A; - disadvantage

*Recycled Zn fuel: ~2x electricity

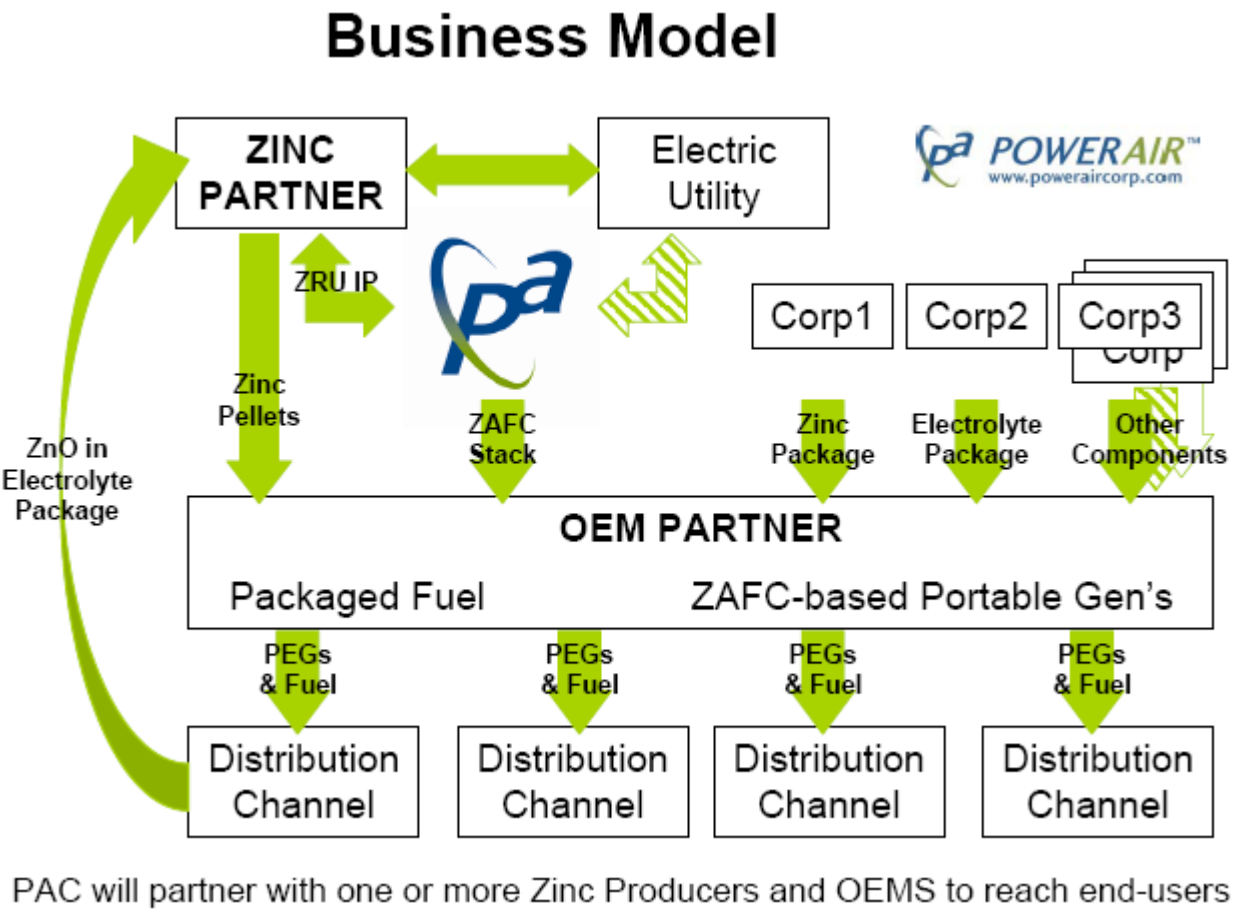
Property, System	ZAFC	Other ZA: Batteries	NiMH	Lead acid	PEM	Gas engine
Refuelable	+	-	-	-	+	+
Top off (fuel under load)	+	-	0	0	+	+
High energy density	+	+	+	-	+	+
Ambient T	+	+	+	+	+	-
Emission free	+	+	+	+	+	--
Noise (<40 dB)	+	+	+	+	0	-
H/W cost (<$300/kW)	+	-	-	+	-	+
Op cost (<$2.5/kWh)*	+	-	+	+	-	+
Efficient (>50%)	+	+	+	+	-	--

The ZAFC Generates Electric Power and a Recyclable Reaction Product

POWERAIR www.poweraircorp.com



The ZAFC system generates power from recycled zinc pellets and electrolyte



Markets

Power Air Corporation's management team has identified **numerous** ZAFC opportunities for portable, stationary, light mobility, and transportation uses. The management team believes the ZAFC can be the lowest cost fuel cell available. PWAC power units are silent, emissions free, and low in thermal signature – critical properties for many civilian and military applications.

PWAC has identified and investigated the requirements for the major portable, stationary and transport applications of the ZAFC technology. After matching the ZAFC's advantages with these requirements and considering the size and time-to-market factors, PWAC is focusing initial resources on delivery of one initial module to market. This module will be targeted to OEMs delivering power solutions to the portable back-up and emergency power segment.

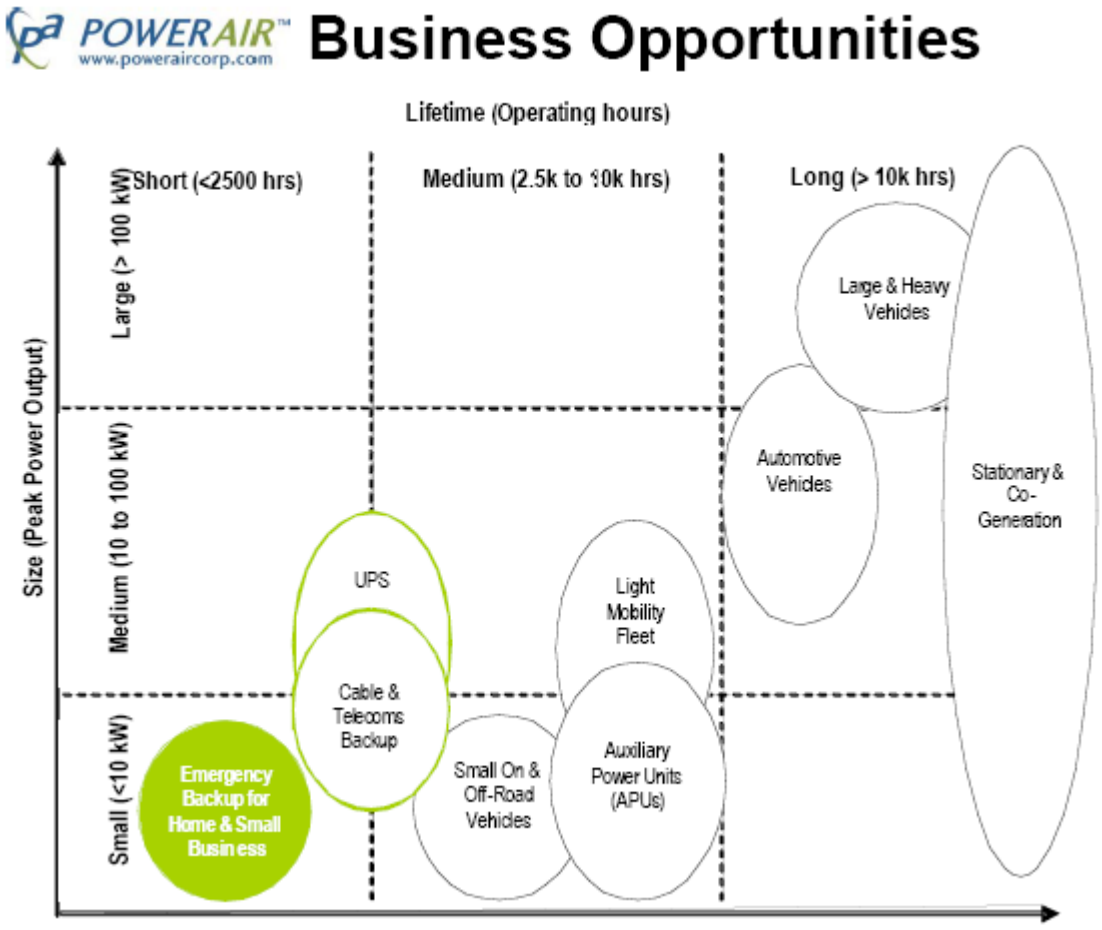
INDUSTRY & COMPETITION

The markets for fuel cells are diverse and the worldwide revenue potential substantial, with global demand projected to reach **$18.6 billion by 2013** by a Canadian Industry Source website.

It's expected that regions such as Europe and Japan will be early adopters because of immediate environmental, economic, and energy diversity and efficiency benefits. In North American, the development of hydrogen and fuel cell technologies is being driven by the US's need for a secure, diverse and more environmentally sound energy supply. However, the low cost of energy in North America presents an additional challenge in the full-scale commercialization of hydrogen and fuel cell technologies.

In the long term, the need for stationary, portable and mobile power applications will be extensive in underdeveloped countries with growing populations and less developed conventional energy infrastructure. Countries such as China and India, who are expecting double-digit growth in energy demand in the future, have more urgent requirements for energy supply in large urban areas and off-grid communities. These countries are expected to be early adopters as well.

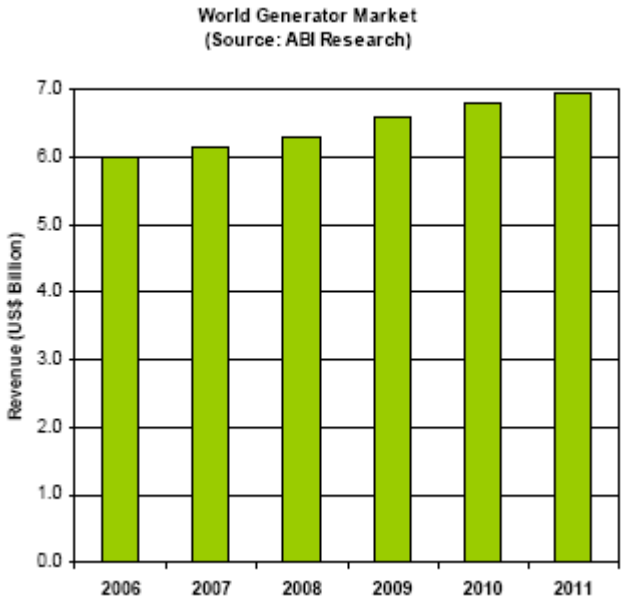
Since PWAC will initially focus on the backup power applications market starting in the portable segment (as opposed to stationary segment which will follow later in the company and product life cycle) we provide more details on these:



Traditional Generator Market Sizing

The Generator Market opportunity is immense. According to **ABI Research**, world unit sales over a 7-year period (i.e. 2006 to 2012), total units are forecast at over **11.6 Million units for revenues of almost $28 billion.**

For portable units, the percentage break-out by kW size is as follows (source: Frost and Sullivan):



Market Segmentation by Size
(Source: Frost & Sullivan)

< 600 Watts	- 0.6%
600 Watts to 1.8 kW	- 3.2%
1.8 kW to 3.6 kW	- 19.1%
3.6 kW to 6.6 kW	- 50.4%
6.6 kW to 9.6 kW	- 11.2%
9.6 kW to 15 kW	- 15.5%

This research together with the company's own independent research has lead PWAC tot conclude that the sweet spot in this market is for power source generator products catering for the market sizes of between 600W up to 6.6 KW where almost 72% of all sales occur.

New Generator Market – Indoor Sites

Power outages are becoming more and more frequent and widespread. Apartment and home occupants and business workers are regularly inconvenienced and in fact put into dangerous situations due to power outages caused by storms and technical failures. They are forced to cope with no lights, no heat, no information, spoiled food, and no working appliances or equipment for hours, days or even weeks at a time. Back-up generators are the current solution, but these generators **cannot be used indoors**, are noisy and polluting, heavy and messy. No back-up solution is offered for apartment and high-rise buildings unless the whole building is backed up with a large diesel or natural gas generator**. PWAC's internal research indicates there are over 42 million potential sites in North America, and over 390 million worldwide, for indoor generators that cannot be addressed using current technology.**

As opposed to the traditional generator market (with an installed base of **13.8 million**), the indoor generator market is a "Greenfield" opportunity. PWAC has determined that the greatest demand in this segment will be for generators less than 7 kW. PWAC's patented technology allows a fully charged reserve power source to sit for lengthy periods unused, and be ready when needed. The end-user pre-determines the extended run capability by simply having enough re-cyclable zinc fuel and electrolyte on hand for the back-up time desired.

Indoor Generator Siting Opportunities		
Statistic	N. America	World**
# of Housing Units	34,044,000	353,070,237
# of Small Business Sites	7,095,302	33,933,334
# of Schools	128,290	1,767,916
# of Other Sites*	1,024,265	1,610,708
Total # of Sites	42,291,857	390,382,195

* Research ongoing

** Asia does not include recent Chinese figures

PWAC Primary Application – Emergency Generators

PWAC intends to **exploit the shortcomings of the current generator solution by introducing, with one or more OEMs, the World's first re-fuelable portable emergency generator that** can operate *indoors, silently, safely and emission-free.*

The initial ZAFC-powered **PEG** will be an emergency and back-up fuel cell generator unit that can be manually moved to wherever it is needed, plugging in appliances or equipment as desired. The PWAC Portable can be suitable for use both indoors (since it has no emissions) and outdoors, with appropriate Packaging.

PWAC Portable Emergency Generator (Prototype) PWAC intends to address the "sweet spot" (over 70%) of the traditional Generator Market with PEG configurations from several hundred watts to under 7 kW. Final product kW size and specifications will be determined in collaboration with one or more OEM partners.

A fully-fueled PEG will run continuously at fully rated power. Following the initial run, the unit can be "re-fueled" by:

- Replacing the PWAC Power Cartridge (PPC) on top of the unit and releasing the fuel (Zinc) into the hopper;
- In the case of larger units - replacing one or more of the electrolyte tanks in the unit.

The end-user will determine how much PEG operating time (or Total Energy) is required, and will store an appropriate amount of fuel (and electrolyte). Empty PPC's and used electrolyte tanks will be deposited at the Fuel Supplier for credit towards new fuel supply. The Fuel Supplier will accumulate the returned PPC's and tanks for return to a central recycling center which will recycle the ZnO by-product (via electrolysis) back into pure Zinc and Electrolyte – at costs far lower than normal Zinc production (recycling patents also held by PWAC).

Target market applications for the PEG are estimated to have an introductory commercialization requirement of ~$1000 per kW and mass market requirement of of below $500 per kW. **PWAC's target of less than $300 per kW for it is core stack technology is substantially lower than conventional fuel cells and market requirements.**

Other Market Applications

PWAC Portable - Because of the portability, zero-emissions, silence, of the initial PWAC system, secondary markets will include recreational power (i.e.: camping, RV's, boats, cabins), construction power (i.e.: power for tools and re-charging of battery based tools), emergency first response, utility and maintenance crews, fire and rescue crews, agricultural applications, off-grid occasional power, movie sets, and rental fleets - PWAC Portable 5.0 kW & PWAC-Stationary – A larger stationary back-up power system will be designed for the primary market of home and apartment fixed backup power use. Due to the linkage with the existing power grid, this unit will require much more extensive testing and longer lifetime.

Appliance	Operating Watts	Start-up/Surge Watts
Refrigerator/Freezer	500	2000
4 Light bulbs @ 75 watts each	300	300
Radio	100	100
Minimum Total Requirement	**900**	**2400**
Television	300	300
Computer	300	300
Minimum w/ Enhanced Communications	**1500**	**3000**
Microwave	800	800
Deep Freezer	500	2000
Table Fan	800	2000
Space heater	1800	1800
Ideal/Full Requirements	**3900**	**6600**

This will delay the products release until several quarters after the PWAC Portable is on the market. Still, because of the features offered and the fuel solution, secondary markets (with some scaling) will include telecom back-up, CATV back-up, UPS (Uninterruptible Power Supply) back-up, utility micro-wave repeater station and substation back-up, and commercial building back-up power.

RECENT DEVELOPMENTS

The most important announcement to date for the company was made public in June of 2006 that it is collaborating on the co-development and commercialization of an emergency back-up generator product for North America with Schrader Bridgeport International. Schrader Bridgeport International is a wholly owned subsidiary of Tomkins PLC, serving the major players within the Industrial and Automotive markets based around the world. Tomkins PLC (NYSE: TKS, LSE: TOMK) is a world-class global engineering and manufacturing group with market and technical leadership across its two business groups: Industrial & Automotive and Building Products. Tomkins PLC has 132 manufacturing facilities around the world with sales of $5.9 billion dollars in 2005.

Schrader Bridgeport International is an ideal partner with high-volume, world-class manufacturing and distribution capabilities. Under the terms of the Agreement, Power Air Corporation and Schrader Bridgeport International will collaborate on the specifications, design, alpha and beta prototype build and test, field trial program, co-branding, and commercial launch of the Target Product, which is a **cost-effective, re-fuelable backup generator that can operate indoors, safely, silently, efficiently, and emissions-free, with extended run capability**. **Schrader Bridgeport International will act as the systems integrator, using Power Air's ZAFC as the power supply for the end-user back-up generator product.**

This partnering relationship is a groundbreaking development to lay the foundations for long-term success. For PWAC it means access to technical capabilities and infrastructures that would be difficult and expensive to duplicate if PWAC were to develop to a commercial offering in isolation. Schrader Bridgeport's strong affiliation with the many Automotive and Industrial aftermarket companies like **NAPA, Pep Boys, Advance Auto, Home Depot, Lowes, and Sears**, will be very important when the final product is approved and ready to launch.

More recently, Power Air announced that it would demonstrate its fuel cell based generator at a number of North American and International Power and Fuel Cell events to be held in 2007. The company will present at Alternative Energy 2007, a premier alternative energy and clean energy technology event, in Chicago in late April, 2007. The company has also been invited to participate at the Hydrogen and Fuel Cells 2007: International Conference and Trade Show in Vancouver, Canada in April, 2007. These two events offer Power Air the opportunity to expose its technology and discuss collaboration on commercial products with both North American and International partners. In addition to the North American events, Power Air has been invited and plans to participate in **the Fuel Cell Expo 2007** in **Tokyo** in early February, 2007, and in the **Hannover Messe** - the largest Energy and Industrial Trade Fair in the World, in mid-April, 2007, where over 100 companies and research institutions from 25 countries will reveal their latest products and developments. The proprietary PWAC technology fuel-cell based generator to be demonstrated at the tradeshows will be similar in appearance to traditional generators - showing how readily Power Air's zinc-air fuel cell stack can be incorporated into commercial applications. In function, however, the Power Air generator will deliver added value, including the ability to **provide reliable back-up or occasional use power safely indoors with zero emissions.**

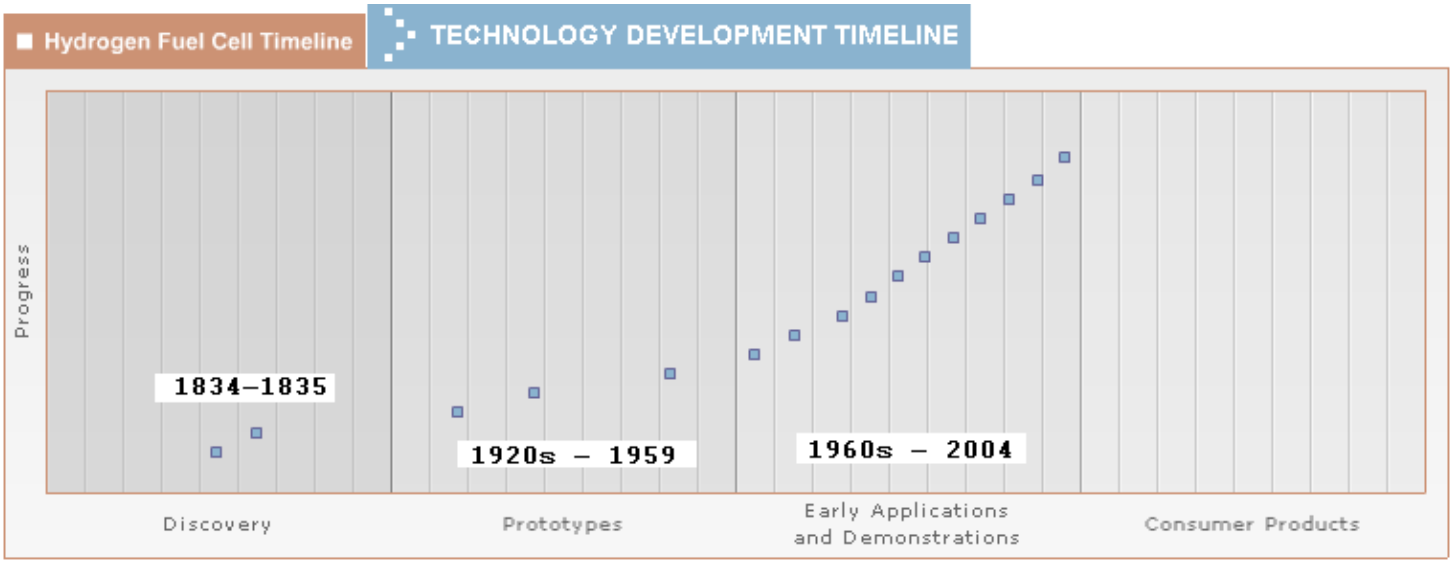
On May 30, 2006, Power Air Corporation announced that it joined the **Zinc Energy Storage Technology Consortium (ZESTec).** Zinc is emerging as the most likely candidate to be the alternative energy storage solution of the future. ZESTec is a new Consortium that shares PWAC's vision of moving away from fossil-fuel. The company is now better situated to work with the other Consortium members to make Zinc fuel supply and recycling available to end-users worldwide.

ZESTec promotes the application and market development for all types of zinc based energy storage systems for a range of end uses from automotive to portable power, for consumer and business use. Membership of the ZESTec consortium includes Zinc Producers **(Falconbridge, Grillo, Industrias Penoles, TeckCominco, Umicore and Zinifex)** and Zinc Energy System Manufacturers **(eVionyx, PowerZinc, SCPS and Power Air Corporation).** The activities of the Consortium are being coordinated through the International Zinc Association.

One of the **critical milestones for 2006 for PWAC is to collaborate with Zinc Producers to develop a global fuel distribution and recycling infrastructure.** ZESTec represents an ideal platform as it gives this company immediate access to all state-of-the-art developments, and is an organization who is committed to securing future fuel supply and recycling requirements for end-users, and such membership will allows the company to focus on the development of its core technology and systems.

Fuel Cell Technology Timeline

Commercializing new technologies like fuel cells take time, especially when they are competing with an established technology like the Internal Combustion Engine. Still, fuel cell development has progressed relatively quickly. While the roots of the modern fuel cell date back to the 1800s, aggressive development did not really begin until 1993. In the past decade great strides have been taken. Many experts believe that, if given the same level of investment that supported the internal combustion engine development, fuel cells could achieve similarly rapid commercialization.



1838: Christian Fiedrich Schoenbein discovered the "fuel cell effect"
1839: Sir William Robert Grove invents the fuel cell or "gas battery".
1920s: Germany researchers lay the groundwork for today's development of solid oxide fuel cells.
1932: Francis Bacon builds the first practical fuel cell in his Cambridge laboratory.
1959: Harry Karl Ihrig demonstrates a 20—horse powered tractor, the first vehicle powered by a fuel cell.
Early 1960s: General Electric produces a fuelcell based electrical power system for NASA's Gemini and Apollo space capsules.
1986: Ballard Power Systems reached a breakthrough point. They were building 12-cell stacks and had developed the PEM fuel cell to the point that it was producing 4 times as much power as it ever had when huge companies had spent huge amounts of money trying to develop it. This meant one thing: they were into automobile technology territory.
1993: The world's first fuel cell transit bus is launched in BC. The world's first hydrogen filling station opens in California.
1997: Daimler Benz & Toyota launch a prototype fuel cell powered cars. Ballard P3 fuel cell bus demonstrations, using Dynenetek 3600-psi cylinders, begin in Vancouver and Chicago.
1998: Canada's first hydrogen fuelling station system is installed at BC Transit, based on renewable hydrogen produced electrolytically. The first prototype fuel cell engine is shipped to Ford.
1999: First public fuelling demonstration in North America of a Stuart Energy Systems Personal Fuelling Appliance.
2000: One-year testing of a UTC Fuel Cells bus powered by an International Fuel Cell Stack begins. Demonstration of the Ford P2000.
2001: Demonstration of the world's largest pre-commercial solid oxide fuel cell combines heat and power system.
2002: The NRC Institute for Fuel Cell Innovation is established with facilities and expertise to support Canada's fuel cell cluster.
2003: The world's largest fuel cell bus fleet demonstration begins – Ballards's heavy-duty fuel cell engines to power 30 buses working in 10 European cities.
2004: The Ford FCV Project is launched.

Forecasts & Objectives

Management's focus in 2006 will be on prototype and product development, implementation of OEM Customer field trials, establishing manufacturing capability, and obtaining Standards/Regulatory approvals.

Some significant milestones for 2006 include:

- Sign **collaboration agreement with OEM and/or Zinc partner;**
- **Build, demonstrate and test PEG prototype**;
- **Initiation of Air Cathode design & cost-reduction**;
- Establish **manufacturing capability;**
- Announce **PEG availability and pricing** with OEM.

The company's focus in 2007 will be to:

- **Completion of Air Cathode** design project;
- **Sign Agreements with additional OEMs** to enter new territories and explore new end-user applications;
- Manufacture **high-quality, safe CSA, UL, and/or CE approved products**;
- **Reduce cost of goods sold** through redesign, parts substitutions & volume.

PWAC expects its first product announcement to occur in Q4/2006. Substantial unit sales are expected to begin in 2007 and grow significantly from 2008 to 2010.

Caption: **PWAC Portable Emergency Generator (Prototype)**

Collaboration – Future Objectives

• *OEM Partner*

–Collaborative development of an end-user product
–Joint Alpha (Engineering) Prototype field trials
–Joint Beta (Production) Prototype field trials
–Competitive market offering

• *Zinc Partner*

–Collaborative solution of Zinc supply chain
–Collaborative development of Zinc recycling system
–Zinc supply chain implemented
–Zinc Recycling Systems available

FINANCIAL STATEMENTS

Power Air Corp. is an early-stage company and financial data is limited. The company filed Form 10-QSB with comprehensive financial information and operational discussion with the SEC with regards to financial performance and developments for the first 3 quarters of FY2006 on August 14, 2006. Figures for the most recent 3 quarters (9 months to June 30, 2006) are un-audited. The company has a September 30 year-end.

As at June 30, 2006, the company had working capital of $1.698 million and accumulated losses of $9.571 million since inception. For the 9 months ending June 30,2006 the company recorded a net loss of $2.841 million compared to a loss of $366,000 during the same period in 2005.

As PWAC have had no revenues since inception, the company has financed operations primarily by using existing capital reserves, entering into settlements with debtors, obtaining debt financing and through private placements of stock. Accordingly, financing activities in the 9 months ended June 30, 2006, provided cash of $2.627 million from the sale of equity securities. In the 9 months ended June 30, 2005 financing activities provided cash of $324,684 as a result of advances from a related party. During the same period investing activities used cash of $105,193 to purchase property and equipment. There were no investing activities in the 9 months ended June 30, 2006. Operating activities in the 9 months ended June 30, 2006 and 2005 used cash of $1.904 million and $324,911, respectively, which reflect recurring operating losses. Operating activities have primarily used cash as a result of the development of technology and organizational activities such as setting up facilities and hiring and compensating a senior management team, and repaying certain accrued liabilities.

The increase in net loss was due to stock-based compensation of $1,220,000 which was charged to operating expenses as follows: $1,076,000 for general and administration, $103,000 for marketing and selling and $42,000 for development and engineering. During the 9 months ended June 30, 2006 PWAC hired all of the key management team members, developed the product development and go to market strategy, completed financings of approximately $4,000,000 and established the Company's operational facilities in Livermore, California, and at the National Research Council in Vancouver, Canada.

G&A expenses totaled approximately $2,136,000 for the nine month period ended June 30, 2006 as compared to $288,000 for the prior period of 2005. Included in general and administrative expenses for the nine month period ended June 30, 2006 are fees and salaries relating to the consultants, directors and administrative and management employees totaling approximately $438,000 as compared to $288,000 in the prior period of 2005. Investor relations and corporate development expenses for the nine month period ended June 30, 2006 totaled approximately $1,046,000 as compared to zero expense for the prior period of 2005. Stock-based compensation, included in general and administrative expenses, was approximately $1,076,000 for the nine month period ended June 30, 2006 (all in Q3) as to compared to nothing in 2005. Travel related expense was approximately $133,000 for the 9 months ended June 30, 2006 compared to no expense in the prior period of 2005. Professional fees were approximately $282,000 in the 9 months ended June 30, 2006 as compared to $nil in the prior period of 2005.

The increase in professional fees relate to the audit and one-time legal costs associated with establishing contracts and assistance in meeting SEC filing requirements initially and ongoing. The remaining approximately $207,000 of general and administrative costs for the nine month period ended June 30, 2006 was for telephone, rent, office and regulatory fees, net of interest income, as compared to approximately $nil in the prior period of 2005. Development and engineering expenses totaled approximately $326,000 for the 9 month period ended June 30, 2006 as compared to $nil for the prior period of 2005. Included in development and engineering expenses for the nine month period ended June 30, 2006 are salaries of approximately $206,000, stock-based compensation of approximately $42,000, consulting fees of approximately $12,000, lab supplies and development costs of approximately $44,000 and travel costs of approximately $22,000.

Marketing and selling expenses totaled approximately $297,000 for the 9 months ended June 30, 2006 as compared to nothing for the prior period of 2005. Included in marketing and selling expenses for the nine month period ended June 30, 2006 are salaries of approximately $162,000, stock-based compensation of approximately $103,000, advertising and promotional costs of approximately $5,000, telephone costs of approximately $2,000, website costs of approximately $6,000 and travel and automobile costs of approximately $19,000. Also included in net loss for the nine month period ended June 30, 2006 are license fees of approximately $71,000 relating to the annual license fee from LLNL as compared to $47,000 for the prior period of 2005. In the prior period of 2005 there was interest accruing on debts owing to various related parties and creditors totaling approximately $31,000 where no such amounts were owing for 2006.

Liquidity and Capital Resources

On July 20, 2006, PWAC announced an agency agreement with Terra Nova Capital Partners, Inc. of New York **to raise up to $5 million** through a private placement to institutional investors. Since becoming publicly traded via a reverse merger in October 2005, Power Air has raised of $4 million from sophisticated investors, ahead of Terra Nova's Offering.

A total of $6 million had been invested prior to the reverse merger on September 30, 2005 when PWAC became a publicly traded entity. Power Air has raised institutional funds from sophisticated investors who are convinced of the commercial potential of its exclusive Zinc Air Fuel Cell (ZAFC) technology.

The company had $1.659 million in cash as at June 30, 2006, which was up from $1.04 million as at 30 September 2005. During the next 12 months PWAC anticipates that it will not generate any revenue. PWAC had working capital of $1.698 million at June 30, 2006, primarily due to the completion of a private placement in June 2006 of 1.7925 million units, at a subscription price of $1.10 per unit and for net proceeds of $1.853 million, with each unit being comprised of one share and one-half of one non-transferable common stock share purchase warrant of PWAC stock, and with each such whole warrant being exercisable for one share at an exercise price of $1.50 per share exercisable until June 28, 2008.

Management **anticipates that the company will require an additional $3 million to pursue its business plan for the next 12 months** and to provide working capital for its operating activities.

The company believes that debt financing **will not be an alternative for funding the development, manufacturing and marketing of its fuel cell based commercial products**, as PWAC does not have tangible assets to secure any debt financing. Management anticipates that additional funding will be in the form of equity financing from the sale of common stock.

Other noteworthy financial and per share statistics are listed in the table found on page 1 of this report.

RISK FACTORS / CONCERNS

PWAC is a company that has **is in development stage company status**. The company is still considered to be early in its life cycle and has limited meaningful reported revenues or financial history. The business model, and longer-term consistency of revenue and income potential, remain uncertain and is not fully proven. A major risk to the future business and growth of PWAC is tied to the strength and vigor of the rate of adoption of new fuel cell based technologies in industrial and industrial electrical applications in all its facets. In an event that the corporate sector slows or dramatically change its spending in this business area or general industry slowdown occurs, it is likely have a detrimental impact on the performance of PWAC.

The company currently has no sources of revenue to provide incoming cash flows to sustain future operations. The ability of the company to emerge from the development stage with respect to any planned principal business activity is dependent upon its successful efforts to enter into Original Equipment Manufacturer (OEM) joint venture agreements, to raise additional equity financing and generate revenue, cash flow and attain profitable operations. Management has plans to seek additional capital through equity offerings. There is no guarantee that the company will be able to complete any of the above objectives. The most recent financial statements contain a going concern statement from its auditors.

If the company is unable to generate or obtain sufficient funds to operate its business, it could harm results and force the company to curtail or cease planned operations. There can be no assurance the company will be successful in its effort to secure additional financing to support operations that will necessitate achievement of near and medium term goals.

Power Air Corp. is substantially dependent on the expertise of its management team and directors, the loss of which could materially adversely affect future anticipated results and efficiency of its expansion plans. Trading in the shares will continue to be subject to major fluctuations for the foreseeable future. The stock is thinly traded at prices around $1.00 and selling of small positions could have a negative impact on the share price in absence of sufficient liquidity.

We caution that historical volume activity on PWAC has been noticeably light, **but in recent weeks activity has improved.** Major dilution of common stock can occur if company issues large blocks of common stock, which can negatively impact on the value of the shares either theoretically, or if sold in the open market. NASD and SEC Regulations covering rules on Penny Stocks apply for PWAC.

The backup power generator market is expanding and in general the fuel cell applications industry is fiercely competitive where the company faces opposition from larger and better-funded rivals. Power Air Corp. will need to continue to adapt to rapidly changing technologies, to enhance its existing solutions and to introduce new solutions to address its customers' changing demands to remain competitive.

Further elaboration on these above-mentioned and other risk factors can be found in **Form 10-QSB filed with the SEC on August 14, 2006.**

MANAGEMENT & BOARD OF DIRECTORS

The driving force behind every successful company is the management team. Exceptional teams make good things happen. Power Air has attracted some major talent from "inside" the Fuel Cell industry. This team has a broad array of specialized skills that includes marketing expertise, financing, and experience with product commercialization, thereby allowing the company to properly and fully execute an ambitious but prudent growth strategy.

Power Air's managers have know-how gained from decades of hands-on experience, including the credibility that comes from past success, and coveted skills relevant to the operation of new, advanced fuel cell technologies. The following bios are a synopsis of the quality of personnel at the helm:

Remy Kozak – President & CEO

Mr. Kozak originally joined the Company as its Vice President of Corporate Development in September 2005. Mr. Kozak was previously "Entrepreneur in Residence" at iWorldGroup, a telecommunications incubator in Europe from 2001 to 2003 where he held the positions of COO and then CTO of various businesses. Prior to that Mr. Kozak founded and was a partner in ARK eXecutives, a European interim management firm, where he contributed to the development and expansion of several businesses in interim roles including COO and VP Finance. Prior to ARK, Mr. Kozak worked for several years as a senior director with Global One Telecommunications, SA in Brussels where he built up and managed the Planning, Strategy and Finance departments for the Internet and Global Accounts divisions. Remy holds an M.B.A. from the University of British Columbia, and a B.A.Sc. in Electrical Engineering from Simon Fraser University.

Mr. H. Dean Haley – Chairman and COO.

Mr. Haley is the founder of HDH Group, LLC, a technology acquisition and development company, based in New York. For the past five years, Mr. Haley was a Division Vice President of Orange and Rockland Utilities, Inc. in New York and was the founder and President of Compass Resources, Inc. A former Bechtel executive, Mr. Haley has recently focused on acquiring and developing new technologies offering products and services to the power and energy industries. Mr. Haley became the Executive Chairman, Chief Operating Officer and Director effective September 2005.

Mr. Donald Ceci – VP Sales and Marketing

Mr. Ceci has over 20 years experience managing sales/marketing activities for high technology companies including IBM, Philips, Comdisco, Ricoh, and, most recently, Ballard Power Systems, Inc. Mr. Ceci joined Ballard in 2001 and, as the Director of Sales, was responsible for building the Sales and Service Organizations required to bring Transportation and Power Generation fuel cell based products to market. His experience and focus are Business Plan & Distribution Development/Implementation, Business and Partner Development, Revenue Growth, and North American/International sales team management. Mr. Ceci became Vice President of Sales & Marketing of Power Air Corp. effective on October 3,2005.

Mr. Andrew Turnbull – Director of Engineering

Mr. Turnbull recently joined Power Air from Xantrex Power, a public power electronics company listed on Toronto, where he was Program Manager responsible for leading multi-functional teams from product development to product launch. Prior to Xantrex, Mr. Turnbull worked for seven years at Ballard Power Systems as Program Manager for Power Generation products. Mr. Turnbull headed a team that developed fuel cell products, including back-up power products, targeting the power generation industry. He has 18 years of engineering and product development experience in various industries including power electronics, fuel cell, oil and gas, and power generation. Mr. Turnbull holds a Bachelor of Applied Science in Electrical Engineering from Queen's University. His focus is to lead the OEM Product Development Program.

Mr. Don Prest – Chief Financial Officer

Mr. Prest is a Chartered Accountant in Canada and a Certified Public Accountant in the United States. Mr. Prest has twenty-one years of experience in the international business consulting and North American tax, accounting and assurance services. Mr. Prest is auditor for over 100 Canadian and US listed public companies and is a Managing Partner of Manning Elliott Chartered Accountants located in Vancouver, British Columbia, Canada. He has served as the company’s secretary, Treasurer, Chief Financial Officer and Principal Accounting Officer since August 26, 2004.

A Board consisting of Dean Haley and 3 independent Directors oversees the Executive Team:

Mr. Stephen Harrison – Director

Mr. Harrison has over twenty-four years of experience in the financial services and accounting fields. He was until recently an Australian director for one of the world's largest fund management and private investment banking groups and was previously Chairman of the Australian Investment Committee for that banking group. In addition, he has held the position of sole Australian Director for the Australian subsidiary of Sanford C. Bernstein, a large US based fund manager. Mr. Harrison holds a number of other directorships and senior management positions with companies across Australia. He became a director of the company in September 2005 and is also a member of the audit committee.

Mr. William J. Potter – Director

Prior to establishing Ridgewood in 1989, Mr. Potter was Managing Director for International Investment Banking at Prudential-Bache Securities Inc. He was also Director of Prudential-Bache Securities Canada Ltd. and had additional responsibility for mining and forestry as well as specific geographic responsibility for Canada and the Australasian region. Prior experience includes several years at senior levels at Barclays Bank PLC, Toronto Dominion Bank and White Weld & Co., Inc.

Mr. Potter, a Canadian national, graduated from Colgate University (A.B.) and the Harvard Business School (M.B.A.), with further legal training in Canada and the United Kingdom. He currently serves as Finance Committee Chairman and director of the National Foreign Trade Council. He is also a director of Impulsora del Fondo Mexico, S.A. de C.V., First Australia Fund, First Australia Prime Income Fund Inc., First Australia Prime Income Investment Company Limited (Canada), First Commonwealth Fund, Battery Technologies Inc., CompuFlex Inc., and Alexandria Bancorp. He has served as an international advisor to Ladenburg Thalman International Ltd., as consultant to Guardian Capital Group, Ltd. and as a consultant to a number of emerging companies and resource projects. Mr. Potter is a member of the audit committee and became a director of PWAC in September 2005.

Mr. Paul Brock – Director

Mr. Brock has served as a director of the company since October 5, 2004. He had served as the President and Chief Executive Officer from October 5, 2004 to September 30, 2005. He is a member of the audit committee. Additionally, Mr. Brock is the President and Chairman of VendTek Systems Inc., a publicly traded company on the TSX Venture Exchange, as well as the President of its subsidiaries VendTek Industries (Canada), VendTek Systems Technologies (China) and VendTek Asia Pacific (Singapore). Mr. Brock has served as President of VendTek Systems Inc. from December 1988 to the present. Further, he has been a director of Now Prepay Corp. from 2001 to the present.

Mr. Brock has more than 10 years of international business, trade, sales and marketing experience and has spent the past three years in China where he has developed relationships and expertise in Chinese business culture. Mr. Brock is a graduate of the British Columbia Institute of Technology's Robotics and Automation Technology Program, a graduate of Simon Fraser University's Executive Management Development Program and a member of the professional association of the Applied Science Technologists of British Columbia since 1998.

INVESTMENT THESIS AND RECOMMENDATION

Our analysis suggests that Power Air Inc. is an interesting speculative play among micro-cap companies offering exposure to the investor in a niche segment of the alternative energy industry where fuel cell technology can be used to solve many industrial sector electrical/power needs. The company has access to intellectual property of the Zinc-Air Fuel cell (ZAFC) that holds immense promise from a competitive point of view in many applications compared to traditional hydrogen and other fuel cells & power sources.

Zinc based energy systems have tremendous advantages: high specific energy, recycling of fuel, safe use, zero emissions, easy storage and local supply. Performance, market, and economic factors are creating opportunities for these systems. The investor enjoys the benefit of being able to partake in an opportunity to invest in a company that has blue sky potential if it can exploit the indoor generator market need, at the grass-roots level. PWAC's internal research indicates there are over 42 million potential sites in North America, and over 390 million worldwide, for indoor generators that cannot be addressed using current technology. As opposed to the traditional generator market (with an installed base of 13.8 million), the indoor generator market is a "Greenfield" opportunity. PWAC's patented technology allows a fully charged reserve power source to sit for lengthy periods unused, and be ready when needed. The end-user pre-determines the extended run capability by simply having enough re-cyclable zinc fuel and electrolyte on hand for the back-up time desired.

PWAC Primary Application is the Emergency Generator market and PWAC intends to exploit the shortcomings of the current generator solution by introducing, with one or more OEMs, the world's first re-fuelable portable emergency generator that can operate indoors, silently, safely and emissions-free. The global generator market is estimated to be worth $28 billion. PWAC has a specific opportunity to gain market share. The reader will appreciate the tremendous potential that exists for this company. A 0.25% market share of the indoor would equate to at least $50 million in annual sales by our calculations, which is certainly conceivable.

The technology of the company can address a world-wide market, given the global interest for portable, stationary, light mobility and transportation applications and provides significant competitive advantages over batteries and internal combustion engines (ICE). The ZAFC technology has substantial cost advantages over conventional PEM fuel cells, with no requirement to use precious metals such as platinum or ultra pure hydrogen as fuel, which we believe will enable the company to reap additional market share over time as its technology gains more exposure. In the coming year, PWAC will consolidate its sales and marketing efforts, as well as seek further OEM partnerships worldwide. Its business model is designed to utilize the leverage of existing sales channels of OEM partners to get its products to market successfully and hence benefit from a long-cycle evolution through license and supply agreements of ZAFC products to OEM's.

Both operating and financial risk involved in investing in young alternative energy companies are typically high and should be considered by investors. In this case the risks are tied mainly to the success of its marketing campaign and OEM relationships, the speed of commercialization of its technology and overall industry and manufacturing speed of adoption of fuel cell technologies. SG&A costs, research & development, marketing and other costs need to be managed well in order to achieve consistent profitability over time. Readers should understand that there can be no assurance that the company will be able to fast-track its intended path towards clinching a meaningful slice of the backup power generator market in North America and Europe that will result in a ramp of revenues for Power Air Corp., that will flow through directly to the top and or bottom line to build a consistent longer term profitable track record to enrich shareholder value. The decision to start out as a publicly traded company has both benefits and drawbacks. In the short-run, it will be challenging, expensive and time-consuming for this early stage company to comply with SEC reporting requirements.

In the long-run, the financial transparency and discipline that comes from being public will benefit both shareholders and customers. With trust being such a critical success factor in business, going public at the outset sends a signal of management's willingness to accept public financial scrutiny and build Power Air for the long-run. We therefore only recommend investors that have a high tolerance for risk that are able and willing to forfeit either most or all of their capital in search for extraordinary returns, to consider investing in the shares. Also, in our view investors willing to commit capital to PWAC should do so with absolute minimum 2 year investment horizon, but preferably longer, to allow ample opportunity for growth to emerge until broader price discovery can materialize within the investment community that will allow the value behind the well defined business model and ZAFC technology to be unlocked as new consumer awareness come to the fore and the company raises visibility and build brand recognition in its sector. Short term we expect that the price of PWAC has bottomed from a technical point of view after recent slide that appears unlinked to fundamental factors. We believe that the company will be able to manage its organic growth and start generating revenues as early as mid FY2007, that will ultimately lead to spurring investor confidence, appreciation and aid share price performance.

A core reason, which is pivotal to our bullish argument for upside in PWAC, results from our interpretation of the recent OEM collaboration and the assumption that there are further OEM and other Zinc producer relationships around the corner. The potential of its novel fuel cell technology coupled with its business plan should provide a launch pad for the company to continue its development work and start generating revenues in the coming 12 months. Once the company is able to bring its first product to market successfully we believe more will follow. Its technology is such that other potential applications are feasible with its Zinc Air Fuel Cells. Other applications include portable power packs, emergency generators, back-up power for telecom and utility sites, UPS for buildings, data centers, and server rooms, APU's for RV's, trucks and boats, replacement of batteries in forklifts, airport ground support, scooters, mopeds, golf carts, and other low power, light-duty vehicles.

Based on recent presentations, the size of the market, our own view and considering comments provided by management, we expect that PWAC will produce substantial revenues in FY2008 which runs from October 1,2007 to September 30,2008. We remain uncertain about the ability of improvement in the operating and production cost structure in FY2007 that is achievable, but are confident that the company will be able to utilize its existing OEM partnership to bring its first product to the market successfully in the next 12-15 months. For FY 2007 there are no projected sales in the current PWAC business plan, but we believe that the company will begin to generate revenue as a result of commercialization in late calendar 2007, early 2008. Even though the company has not given any initial projections of sales quotas or targets we have based our FY2008 revenue assumption on shipments of 2000-2500 units falling in an average introductory price range of $2000 to $2500 per unit which is not figures released by the company, but based on our best guess estimate of competitive pricing and early sell-through potential, that we deem realistic.

WE STRONGLY HIGHLIGHT TO THE READER that the above forecast is our own independent forecast and should not be relied upon as a critical factor in the investment decision-making process. Power Air Corp has never released any figures on sales, final product features, end-user pricing or margin to the market and has no intention to do so in the foreseeable future. Under the assumption that any further capital raising activity is well-managed to contain any further major I/O (issued and outstanding stock) increases and operating cash flow improve in FY 2008 as more progress is made to get product to the market, we believe PWAC stock has compelling upside potential.

Our view is that the shares are currently not necessarily under priced on a peer comparison perspective, but that the market is attaching an early 'premium' to its exclusive ZAFC rights in absence of revenue generation that make the share look expensive on traditional valuation metrics given its historic financial figures. However, if Power Air Corp. is indeed successful to provide a solution and dominate the indoor power generation market that is still largely untapped, the current valuation is likely to swell even more as high expectations of the future is built into share prices. Given the current rate of development of the project phases of development as set out by Power Air Corp., we argue that should the company be able to trade within the valuation bounds of its closest listed peer companies that operate in the fuel cell industry.

Table - PEER GROUP COMPARATIVES - figures in millions

Company	Ticker	Price	Market Cap ($m)	Revenue (TTM)	Cash ($m)	Book Value per share	PE Ratio Trailing (TTM) if applicable	Price Book P/Book	Price to Sales P/Sales	Net Profit Loss	Cash per share
Ballard Power Systems Inc.	BLDP	6.14	694.97	61.42	213.08	3.92	NA	1.57	11.32	-38.19	1.88
Energy Conversion Devices	ENER	32.06	1250.00	95.30	386.94	12.85	NA	2.49	13.12	-24.79	9.91
FuelCell Energy Inc.	FCEL	9.50	504.65	32.18	109.11	2.64	NA	3.60	15.68	-78.28	2.05
Plug Power	PLUG	4.60	398.06	11.65	290.27	3.67	NA	1.25	34.17	-53.47	3.35
Power Air Corp.	PWAC	1.10	49.27	NA	1.66	-0.04	NA	-24.70	NA		0.037
Average								2.2	18.6	-48.7	

For these purposes we have drawn a comparison between PWAC and Ballard Power Systems (BLDP), Energy Conversion Devices (ENER), Fuel Cell Energy (FCEL) and Plug Power (PLUG).

In our opinion the future PE, the Price to Book multiples and Price to Sales multiples for PWAC should be at least in line with the sector average when looking 2 years ahead and discounting at an appropriate interest rate for the time value of money. Unfortunately most of these metrics are useless for practical valuation purposes, except for a forward price to sales approach. We believe that the rating of the shares will be receive a boost as the company builds a longer track record and investor recognition improves when the company starts generating revenues.

Using our own proprietary FY 2008 revenue forecast and applying a forward P/S multiple of 18x in line with the peer group average, we arrive at forward market capitalization of $90 million or $2.00 per share. Given all these calculations and our bottom up analysis; which is more qualitative in nature, we set a 12-month target price for the security of $2.60 per share. This higher price reflects our optimism about the scope of the market potential to tap pent-up demand within the indoor power generation market.

All factors considered, we anticipate a stake in PWAC clearly has compelling upside potential in the coming 12 months and that is risk adjusted and absolute returns will far outpace that of the broad market as measured by the S&P 500 index as benchmark.

We HIGHLIGHT to the reader that this rating is made under the assumption that the company can attain our FY2008 revenue expectation and achieve its primary milestone objectives as set out on PAGE 10. Moreover, we believe that the present market for PWAC shares is far from efficient as the company does not yet feature on the radar screen of most investors that take an interest in alternative energy companies; that current share prices do not fully reflect the leverage possible from its OEM collaborations and business model, nor does it take into account the additional value for future business stemming from market share gains of the indoor power generator market with its novel technology.

Given these factors and under these aforementioned revenue, margin and profit assumptions, we initiate coverage on PWAC with a SPECULATIVE POSITIVE rating. The rating assumes that the covered company will deliver returns that outperform that of the broad market (as measured by the S&P 500 index) by 25% or more over the next 12 months.

Risk to our recommendation include amongst other: failure of sales efforts to its targeted customer base of OEMs and agreement/establishment of further OEM collaborations, a slowdown in growth and spending preferences and adoption of new technology by prospective customers that will lead to PWAC missing our revenue forecasts. New competition in regional markets or pricing wars and competitive pressures or failure to maintain or establish differentiation of its superior ZAFC solutions to the power generation market, any stringent or bold unforeseen regulatory changes impacting adversely on current and/or prospective market segments that PWAC conduct their business in, any inability to obtain necessary financing from capital markets when needed, to achieve its goal of capturing a its targeted share of the indoor power generator market or lack of capital available to pursue future phases of intended development and/or major share dilution that can occur, if large quantities of shares are issued to extinguish debt or paid for services, or when warrants are exercised are some additional factors that will counteract price appreciation potential or cause shares to decline in value.

If the company is unable to establish supply relationships with Zinc producers to manage input costs it will have a negative effect on margins and pricing power.

Any failure to retain qualified staff and favorable OEM and partnerships, management and engineers can restrict future business activity and hurt operations and financial performance, the inability to achieve revenues in the future that depends in significant part upon Schrader-Bridgeport's to access its distribution and sales forces and wholesale and retail outlets that will allow PWAC to bring its first product(s) to market faster, and low penetration of new regional markets can hamper share price performance. As a result, any cancellation, reduction or delay in future scheduled agreements and development phases may materially adversely affect the business, financial condition and results of operations and additional risk factors that could adversely affect the attainment of our share price target include: general economic conditions and a variety of factors that is outside the control of the company. Reduced capital spending budgets by PWAC's target market caused by an unanticipated industry downturn or a major contraction in the nationwide backup power generation market and fuel cell based technology activity in general, for whatever reasons can lead to soft demand for PWAC's products, which can resulted in decreased revenues, earnings levels or growth rates.

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We would caution that given the size of the company (microcap) and risks involved, overall we advise private client positions be limited below 5% of the client's total portfolio size.

ANALYST CERTIFICATIONS APPENDIX A-1

The research analyst, who upon request wrote this report, certifies that the views expressed in this research report, accurately reflects his personal view about the subject company. The analyst also certifies that he does not own or have any beneficial interest in shares of the covered company, also that no part of his compensation was, is or will be directly or indirectly related to the specific recommendation or view expressed in this report.

Based on the facts that were provided, the industry trends present and sources of information used to produce this report, it is my best opinion and reflection of what the companys rating and share appreciation potential could be once research coverage is widely adopted. Investors are urged to consider this report as only a single factor in making their investment decision. Information, opinions or recommendations contained in this report or research note are submitted solely for advisory and information purposes and we also do not accept any obligation to provide updates to this report in future.

Clients of the analyst firm collectively own less than 1 percent of total shares outstanding of the issuer. For securities recommended in this report the firm is not a market maker, but may from time to time provide bids and offers and may act as principal in connection with such transactions to facilitate trading liquidity or execution. The firm of the analyst does not actively seek to do investment banking business with the company covered in this research report. This independent analysis and judgment relies on material supplied by the subject company and other sources, such as SEC filings believed to be reliable. The analyst that prepared this report cannot guarantee the information contained herein for accuracy or completeness.

All information contained in this report is subject to change without notification. The information contained in this report is not intended to be, and shall not constitute, an offer to sell, nor solicitation of any offer to buy, any security. Investors are advised to consult their personal broker or investment advisor before making any decision concerning the subject company. Investors are also urged to do their own due diligence. In our opinion, only high risk-oriented investors who can risk the loss of their entire investment should even consider a commitment to the covered company.

All readers are urged to peruse SEC documents relative to the subject company before making any investment decision.