

ANNUAL REPORT
FOR THE YEAR ENDING
December 31, 2010



“Providing Global Solutions for CO₂ Capture,
Enhanced Oil Recovery and Storage”

HTC PUREENERGY INC.

**Form 51-102F1
Management Discussion and Analysis
For the Year ending December 31, 2010**

INTRODUCTION

The following Management Discussion and Analysis (“**MD&A**”) is prepared as of April 29, 2011 and should be read together with the Corporation’s Audited Consolidated Financial Statements for the year ended December 31, 2010 (the “**Year**”) and related notes attached thereto, which are prepared in accordance with Canadian Generally Accepted Accounting Principles (“**GAAP**”). All amounts are stated in Canadian dollars unless otherwise indicated.

FORWARD-LOOKING STATEMENTS DISCLAIMER

Statements in this MD&A that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties that may cause the Corporation's actual results or outcomes to be materially different from those anticipated and discussed herein. In assessing forward-looking statements contained herein, readers are urged to read carefully all cautionary statements contained in this MD&A and accompanying Financial Statements, and in those other filings with the Corporation’s Canadian regulatory authorities as found in ‘www.SEDAR.com’ and to not put undue reliance on such forward looking statements. Although Management believes that the expectations reflected in the forward-looking statements are reasonable, Management cannot guarantee future results, levels of activity, performance or achievements or other future events. Management is under no duty to update any of its forward-looking statements after the date of this MD&A, other than as required and governed by law.

Additional information related to HTC Pureenergy Inc. (“**HTC**” or the “**Corporation**”) is available for view on SEDAR at www.sedar.com.

CORPORATION OVERVIEW

HTC and its subsidiaries are development stage companies whose commercial business is the development, aggregation and commercialization of proprietary technologies relating to CO₂ capture, CO₂ and Polymer enhanced oil recovery, CO₂ storage, and carbon credit origination, inventorying and monetization.

Through its innovative and proprietary technologies, HTC and its subsidiaries are achieving their commercial business goals by implementing cost effective "CO₂ Capture and Management Solutions" that will help oil and gas companies utilize CO₂ for the purposes of enhanced oil recovery, enhanced gas production as well as providing related reservoir engineering services.

HTC is one of only a few companies in the world that provides a full offering of products and services in the carbon management value chain - CO₂ capture, enhanced oil recovery, storage, and carbon credits.

HTC works in conjunction with its collaborative partners - Doosan Babcock Energy Limited and Doosan Heavy Industries & Construction Co. Ltd. (together “**Doosan Power Systems**”), and other leading research institutions to assist in delivering these services. HTC continues to collaborate, product develop and license technologies from world leading institutions and companies to facilitate the Best Commercial Technologies (BCT) in the carbon capture and management business.

HTC also invests heavily in product development and is currently working on new and innovative ways to reduce the cost of CO₂ capture and improve hydrocarbon production utilizing CO₂, Polymers and other oil production optimization technologies. In addition, the Corporations mandate is to develop proprietary novel clean energy and related technologies.

HTC’s Carbon Management Product Offer – CO₂ Capture

HTC is currently very active in commercializing its CO₂ Carbon Management product offer world-wide. An outline of HTC’s current product offering includes:

HTC’s Original Equipment Manufacturer (“OEM”) supply product includes Modular Purenergy CCS[®] CO₂ Capture Systems. ‘The world’s first Pre-engineered Modular Design[©] post-combustion CO₂ capture system, customized to site requirements of regional and global electricity producers, fuel and industrial processors and other CO₂ emitters.’

HTC’s Purenergy CCS[®] Capture System offers a ‘world first’ economically viable commercial scale CO₂ capture system for industries seeking ‘carbon clear solutions’ in power generation, fossil fuels and industrial chemical processing, cement production and many other industrial applications. The CCS Purenergy[®] Capture System is a fully validated and optimized product of HTC’s demanding product development, technology aggregation and testing program, which has been a multi-year collaboration with leading research institutions, Canadian & International engineering groups, international engineering-procure-construct (“EPC”) companies and HTC.



HTC works very closely with its engineering and construction partner – Doosan Power Systems, in designing, engineering and construction of large CO₂ capture plants for the power generation and petrochemical industries. HTC is developing collaborative partners for its smaller CO₂ modular systems directed at steam generation boilers used in oil and gas operations and small industrial sites for utilization of the CO₂ primarily in enhanced oil recovery.



EHR Enhanced Hydrocarbon Recovery Inc.

EHR Enhanced Hydrocarbon Recovery Inc. (“EHR”) is presenting many exciting opportunities as a subsidiary. The unique pool of resources and technologies it offers provides a number of opportunities.

EHR has targeted the rapidly expanding enhanced oil and gas recovery market utilizing CO₂, Polymers and other tertiary and secondary optimization techniques. In North America, it is estimated that over 45 billion barrels of proven oil reserves will be available for production through the application of innovative tertiary enhanced oil recovery techniques. As a CO₂ and polymer management technology global leader, EHR will be participating in revenues associated with increasing production from North American oil fields by providing ***Focused Solutions for Hydrocarbon Recovery that include:***

- Oil and Gas Asset Acquisition and Production;
- Technical Solutions for Oil and Gas Production; and
- Reservoir Engineering Consulting.

EHR provides the Corporation with experts in tertiary processes, including miscible / immiscible gases, polymers, chemicals and thermal energy to produce additional oil and gas after primary recovery methods is no longer viable.

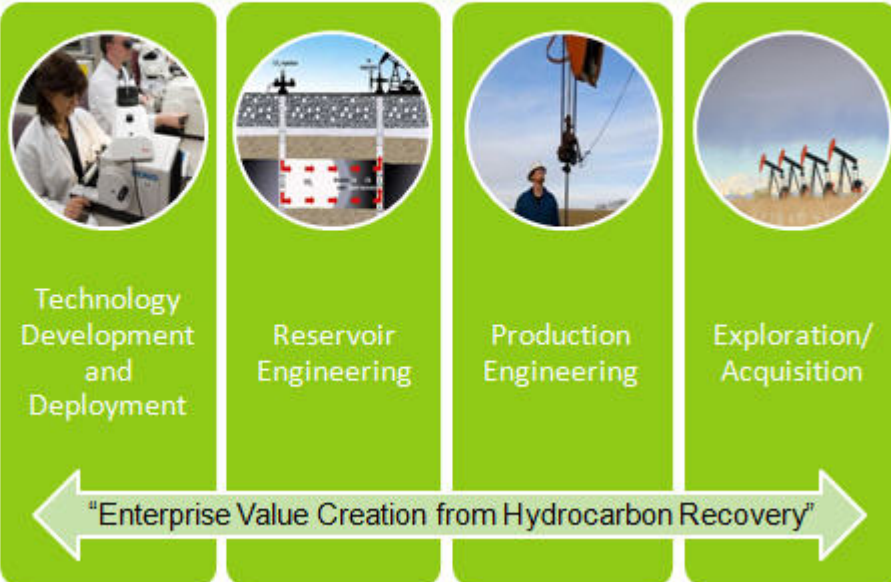
Core to these technical services are:

- CO₂ Enhanced Oil Recovery; E_CO₂ R™
- Steam Assisted Gravity Drainage (SAGD);
- Vapor Extraction Steam Assisted Gravity Drainage (VX-SAGD)™;
- Vapor Assisted Petroleum Extraction (VAPEX);
- Management and Optimization of r Polymer Water flooding; PWF™
- Polymer Flooding;
- Chemical Flooding; and
- Comprehensive Full Field Studies.

EHR fits well within the Corporation’s current carbon capture and management strategy as currently the primary commercial driver for the use of CO₂ is enhanced oil and gas recovery. EHR will look to generate ongoing cash flow from technical engineering services, while developing revenue opportunities from oil and gas asset acquisition and production projects. EHR is utilizing its proprietary E³ (Economic Evaluation Engine) to identify production assets that have significant optimization upside.



CORE BUSINESS CAPABILITIES



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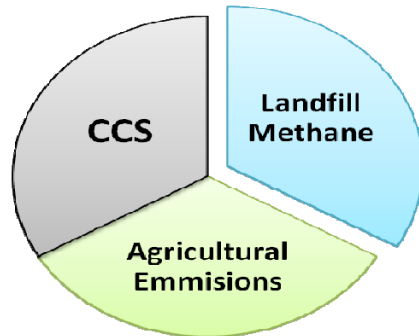
Carbon Credits

On December 21, 2009, HTC expanded its complete carbon management strategy by purchasing 90% of the issued and outstanding shares of Carbon Capital Management Inc. (“CCM”),

CCM’s business is:

- The origination, sales and trading of a physical supply of carbon offsets primarily focused on the upcoming Canadian compliance market;
- The first mover advantage in the Canadian market with a large portfolio of carbon offset projects
- The ability to transact in the voluntary market and other liquid regional markets (Ontario, Alberta) in the short term, prior to the Canadian market launch, expected to be in-line with a harmonized North American system; and
- The development of a comprehensive municipal strategy.

CCM intends to expand its carbon origination strategy in 2010 and 2011 through the amalgamation with Carbon Rx Inc. (CCS Credits) and the acquisition of a leading carbon offset agricultural credit aggregation company. National and Provincial emissions regulations will assist in the growth of the company, and are expected to be regionally implemented in 2012. With the amalgamation of these three companies, CCM will be able to offer the full spectrum of carbon credits to its customers.



CCM – One of the few companies in Canada to offer a full spectrum of Carbon Credits.

HTCs 2010 Objectives and Achievements

The Corporation's operations this year are showing results from the initiatives taken in the previous year, which is demonstrated by the improvement in revenues and cash flow excluding amortization. 2010 has seen an increased interest in carbon capture projects utilizing the CO₂ for enhanced oil recovery.

During the first quarter of 2010, HTC commenced the development of its CCS FEEDengine[®]. This modeling and simulation software engine will provide HTC with a significant advantage in the accuracy and speed of designing CO₂ capture systems. In addition, HTC has been working on developing a new CO₂ capture solvent reclaiming system that will be more efficient in the cleanup of mixed amine solvent systems, which reduce the operating costs of a CO₂ capture system.

During the second quarter, HTC was actively involved in providing technical solutions, in addition to continuing work on product development of the CCS Purenergy[®] CO₂ carbon capture system and the Mixed Amine Solvent Reclaimer. Also during this quarter, HTC incorporated EHR Enhanced Hydrocarbon Recovery Inc., to formalize this operating division.

During the third quarter HTC continued to focus on engineering services, and was awarded additional process engineering projects that will extend through 2011. HTC continues work toward the previous aforementioned product development technologies some of which are being evaluated for capitalization.

During the fourth quarter the Corporation continued focus on engineering services while rolling out various new initiatives. To expand our market share in the small capture market, the Corporation has set up a new operating division called HTC CO₂ Systems. HTC CO₂ Systems will focus on smaller scale modular CO₂ capture primarily from steam assisted gravity drainage (SAGD) and Cyclic Steam Stimulation (CSS) boilers for use in expanded oil recovery and for

small industrial purposes. HTC CO₂ Systems will take a greater role in the company as we put greater emphasis on the small CO₂ capture market as a corporate direction in 2011.

During the fourth quarter, the Corporation also increased marketing activity on EHR's products and services such as evaluating a number of oil and gas asset acquisition targets, as well as production joint venture opportunities that focus on our core product offerings. To this end a number of initiatives and/or joint project concepts have been identified and are currently being considered. Also during the fourth quarter HTC conducted an internal review of its operations geared towards defining strengths and weakness in existing operations as well as considering various long term strategic initiatives and corporate directives. As part of this strategic opportunity initiative, new and/or expanded strategic alliances have been identified and are being evaluated. HTC continues initiatives in new energy technology development and commercial deployment.

Branding

HTC continues to actively promote the Corporation and its services at a variety of North American and International venues, where HTC's message has been well received. HTC continues to take advantage of this increasing acceptance of the use of CO₂ for enhanced hydrocarbon recovery in oil and gas production projects by building its brand awareness. This will be accomplished by increased media exposure, key note speaking engagements at various trade shows and conferences and focusing on HTC's relationship with Doosan Power Systems' and others. Collaborative Agreements with world leading research centres geared towards expanding and improving HTC's suite of technologies are being accomplished. HTC's objective is that research and product development will enhance its global image while opening the doors to new cutting edge technology in the energy sector.

HTC's efforts with EHR will focus on branding the Corporation's extensive knowledge of reservoir engineering capabilities for the use of CO₂ to increase oil and gas production and gear it towards becoming a self-sustaining, self-financing operation.

HTC invites you to review current and historical press releases and News Express releases. This material can be viewed on the Corporation's web site at www.htcenergy.com/news.html. Information on EHR can be viewed at www.hydrocarbonrecovery.com.

Hydrogen Generation Research and Development

The Corporation continued to develop products and processes that facilitate the production of Hydrogen utilizing pipeline natural gas or previously flared waste methane along with CO₂ as a feed stock. Hydrogen is a key ingredient in the upgrading and refining of oil. HTC is also developing new Hydrogen membranes, which will allow the separation of Hydrogen at higher temperatures, which will make our Dry Reforming process more efficient. This research work fits in well with the CO₂ and oil and gas objectives of the Corporation.

Financing

The Corporation has been diligent in protecting the capital base, and despite the significant accomplishments the Corporation has shown over the past few years, it continues to maintain a tight control over expenditures and a low cash burn rate. The Corporation is actively exploring strategic equity investment opportunities to allow it to meet its ultimate commercialization

objectives and is considering the logistics of joint venturing various portions of its operations to ensure these units have sufficient resources to be self-sustaining.

2011 OBJECTIVES AND MILESTONES

The Corporation is optimistic that it will be able to build upon projects undertaken during 2008, 2009 and 2010 and translate our design and engineering accomplishments into commercial projects. HTC plans to have its proprietary SRS Solvent Reclaiming System working on a large demonstration plant in the USA in 2011. IP protection for the CCS FEEDengine[®] and the SRS Solvent Reclaiming System was initiated subsequent to year end.

During the 2011 fiscal year, the Corporation will continue to pursue the primary objectives set out below:

Commercialization

- Adequately capitalize and incorporate the necessary human resources to EHR to maximize its operational potential and investment return potential to shareholders.
- Expand into additional CO₂ Industrial Emitter markets other than large coal and natural gas fired power plants including those relating to oil and gas and other small industrial markets
- Look to establish new relations globally that are directed at enhancing and expanding the suite of energy related technologies.
- Provide assistance to Maxx Energy Solutions Corp (our equity investment) for development and deployment of oil and gas field equipment.
- Engage major utilities and CO₂ emitters world-wide in an effort to match CO₂ emitters with their carbon management objectives.
- Continue the development and incorporation of the HTC CO₂ Capture Systems division
- Strengthen existing relationships with Doosan Power Systems who will play a pivotal role in the construction of large CO₂ capture facilities and new coal plants and actively pursue contacts in specific local markets.
- Continue successful branding strategy and refocus on distinct operating divisions – HTC, EHR, CCM and HTC CO₂ Systems.
- Complete the process design and engineering work awarded, expand HTC's presence in new market areas and pursue additional engineering opportunities
- Provide process design services to North American and European based commercial scale demo plants that will be constructed and commissioned by Doosan Power Systems in 2011. Actively lever on these projects and the advantage of the new opportunities these facilities present
- Expand market presence in Carbon Credit and EOR Markets.

Corporate Expansion

- Engage or hire additional oil and gas engineering land acquisition and support personnel to facilitate anticipated increased activity in the EHR division Continue the process of identifying new technologies that can be integrated into the Corporation's suite of technologies as well as new energy related technologies that show potential. (Best Commercial Technologies – "BCT")

- Expand on oil and gas opportunities with a focus on CO₂, Enhanced Oil Recovery (EOR), Steam Assisted Gravity Drainage (SAGD), Cyclic Steam Stimulation (CSS) and other heavy oil production primarily in North America
- Expand potential for Carbon Credit Trading initiatives made in the 2010 year.
- Expand engineering services business for EHR division such as down-hole production and reservoir engineering to the oil and gas business.
- Look for joint venture or other collaborative partnerships that would facilitate the development of the Companies key technologies.

Technology Development

- Complete the integrated engineering, build and introduction of the HTC modular CO₂ Capture System.
- Continue the process of identifying and reviewing commercially available solvents used in our CO₂ capture systems to help improve the efficiency of our systems
- Complete and install the designer solvent reclaimer system.
- Identify Best Commercial Technologies (BCT) that can be integrated into existing test facilities to demonstrate commercial viability and improved system efficiency.

DISCUSSIONS OF THE 2010 FINANCIAL RESULTS

RISKS AND UNCERTAINTIES

Risks and uncertainty relate to dependence of CO₂ emitters being incentified or legislated to adapt CO₂ capture technology and the price of oil for adoption of CO₂ EOR.

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the year.

Significant items subject to estimates and assumptions include the carrying amounts of goodwill and intangible assets, product development, underlying estimations of useful lives of depreciable assets, capitalization of interest, the carrying amounts of accounts receivable, investments, fair value of financial instruments, and environmental remediation and contingent liabilities, if any.

These financial statements are based on management's best estimates using information available. Uncertainty regarding the timing of anticipated large scale market demand for carbon capture technology, related legislative incentives, and uncertainty in financial markets has complicated the estimation process. Accordingly, the inherent uncertainty involved in making estimates and assumptions may impact the actual results reported in future periods by a material amount.

SELECTED ANNUAL INFORMATION

In Canadian Dollars	Year ending Dec 31, 2010	Year ending Dec 31, 2009	Year ending Dec 31, 2008
Total Revenue	3,358,591	384,640	4,597,576
Income from Operations	(1,547,793)	(4,833,441)	934,867
Loss after Intangibles adjustment & before Unusual Item	(1,547,793)	(5,898,540)	802,589
Loss after Unusual Items and Equity Income	(1,374,479)	(5,814,069)	(3,759,152)*
Loss, on a per-share basis**	(.08)	(.32)	(.24)
Loss, on a per-share basis diluted***	-	-	-
Comprehensive Net Loss	(1,563,009)	(5,814,069)	(3,759,152)*
Total Assets	23,063,286	24,371,462	29,430,079
Total Long-Term Financial Liabilities	NIL	NIL	NIL
Operating Lease payments			
Base rent	110,000	82,503	24,862
Cash Dividends Declared per-share	NIL	NIL	NIL

* Net Income for 2008 includes a loss due to the disposition of an investment made in 2007.

** Loss per common share has been calculated using the weighted average number of common shares outstanding.

*** Diluted net loss per common share is not presented, for the balance of the schedule as the effect of common share options would be anti-dilutive.

SUMMARY OF CUMULATIVE QUARTERLY RESULTS

In Canadian Dollars	Year ending Dec. 31, 2010 Audited	Year ending Dec. 31, 2009 Audited	9 months ending Sept. 30, 2010 Unaudited	9 months ending Sept. 30, 2009 Unaudited	6 months ending June 30, 2010 Unaudited	6 months ending June 30, 2009 Unaudited	3 months ending March 31, 2010 Unaudited	3 months ending March 31, 2009 Unaudited
Total Revenues	3,358,591	384,640	2,435,031	485,810	1,365,457	462,830	611,568	100,231
Income (Loss) before unusual and equity income	(1,547,793)	(5,898,540)	(801,702)	(2,705,069)	(523,293)	(1,761,678)	(229,292)	(872,999)
Net Income (Loss) after unusual items and equity investments	(1,374,479)	(5,814,069)	(401,454)	(2,763,478)	(247,495)	(1,827,514)	(110,340)	(780,219)
Total Assets	23,063,286	24,371,462	23,763,908	26,939,082	23,987,027	27,856,013	24,098,363	28,909,726
Long Term Liabilities	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Shareholder Equity	22,783,600	23,861,609	23,460,155	26,622,200	23,614,114	27,558,164	23,751,269	28,485,163
Cash flow from Operations	(2,522,760)	(3,872,076)	(2,253,355)	(2,870,417)	(2,005,285)	(2,181,435)	(1,023,945)	(1,401,405)
Increase (decrease) in Cash	63,215	(243,478)	4,636,408	(41,890)	133,382	94,975	176,028	225,236
Net Income (Loss), in total, on a per-share basis*	(.08)	(.32)	(.02)	(.15)	(.01)	(.10)	(.006)	(.05)
Net Income (Loss), in total, on a per-share basis diluted*	-	-	-	-	-	-	-	-
Weighted Average common shares	17,959,195	17,741,981	17,928,510	17,628,337	17,893,222	16,921,339	17,853,644	16,101,321

* Profit (Loss) per common share for the periods has been calculated using the weighted average number of common shares outstanding during the respective periods. Diluted net loss per common share is not presented, for the balance of the schedule as the effect of common share options would be anti-dilutive.

PER SHARE AMOUNTS:

Basic net earnings (loss) per common share have been calculated using the weighted average number of common shares outstanding during the period of 17,959,195 (December 31, 2009 - 17,741,981) and fully diluted shares during the period of 19,679,195 (December 31, 2009 - 21,009,890).

	For the year ended Dec. 31, 2010 (Audited)	For the year ended Dec. 31, 2009 (Audited)
(Loss) per common share	\$(.08)	\$ (.32)

Fully Diluted net loss per common share is not presented, as the effect of common share options would be anti-dilutive.

REVENUES

For the Year the Corporation had operating revenue of \$3,358,591 (2009 – \$384,640). Revenues arose primarily from engineering services and design projects in the United States and Italy. The increases in revenues are reflective of some ground work laid during the prior year and the renewed world-wide interest in carbon related technologies.

OPERATING EXPENSES

Commercialization, product development and administrative expenses for the Year were \$3,754,493 as compared to \$3,660,003 for the previous year. The increase in 2010 is primarily due to more activity and costs associated with new initiatives, the recognition of work in progress to better match revenue streams, as well as various projects involving consultants.

Research and development expenses for the Year were \$613,863 as compared to \$1,149,684 for the previous year. The decrease in research and development expense is attributable to reallocation of resources to ongoing projects as well as the capitalization of various development costs that meet capitalization criteria.

A significant portion of expenses, in the amount of \$434,132, represents amortization of intangibles associated with the acquisitions of subsidiaries. The remaining amortization is attributable to tangible assets.

INTEREST & OTHER INCOME (EXPENSE)

The Corporation recorded bank interest earned on short and long term investments and other income for the Year of \$115,068 (2009 - \$146,145). The reduction in interest is a result of the low rate of return available on low risk short term investments and the reduced amount of funds available for investment due to operational needs for funds.

Dividend income received was a result of a reorganization of a subsidiary of Global Energy, Inc. and is not reoccurring.

Stock based compensation of \$485,000 represents a fair value estimate established by applying Black Scholes modeling to predict the value associated with options on the basis that they may be exercised before expiration. There is no cash consideration associated with the granting at these options. At the time options were awarded the exercise prices was for a higher amount then the stock trading value. There is no cash outflow associated with this amount. The offset to this amount is reflected as an increase in contributed capital. This means the net impact on equity when considered as a whole is Nil as the amount reflected as an expense and impacting retained earnings is offset by the corresponding amount in contributed capital.

OPERATING LOSS

For the Year, the Corporation had a loss of \$1,547,793 from operations as compared to a loss of \$4,833,441 from operations for the prior year. The improvement in operations is primarily attributable to the increase in revenues generated during the Year (\$2,973,951), combined with the recognition of work in progress (\$83,490) which is due to the existence of ongoing projects in the fourth quarter. The 2010 results were reduced by \$485,000 relating to stock options (see above) this is a non cash flow item and is offset by a corresponding increase in contributed capital.

INCOME FROM EQUITY INVESTMENTS

Income from equity investments in respect to the Year was \$173,314 after considering provision for tax and the elimination of unrealized inter-corporate profits compared to \$84,471 for the prior year. The timing of these amounts varies throughout the year based on the earnings cycle of Maxx Energy Solutions Corp. and its subsidiaries.

NET LOSS AND COMPREHENSIVE LOSS

Net loss for the Year was \$1,374,479. This compares to a loss of \$5,814,069 in respect to the prior year, 2009. The improvement in income is primarily attributable to the increase in revenues as explained above. When amortization and stock compensation is removed from the reported losses, earnings before amortization interest and tax (**EBITDA**) is \$(398,023) for the Year as compared to \$(4,194,431) for the year ending December 31, 2009.

The unrealized loss on available for sale financial assets of \$188,530 represents a reduction in the carrying value of the investment in EESTech Inc. to the quoted value in a limited market. This adjustment does not involve cash.

Comprehensive net loss for the Year is \$1,563,009 after considering the effects of the unrealized loss above vs. \$5,814,069 in the prior year.

TOTAL ASSETS

Total assets were \$23,063,286 as at December 31, 2010, as compared to \$24,371,462 as at December 31, 2009. The decrease in total assets is largely attributable to the reduction in short term and cash positions to meet operational expenditure requirements and amortization.

Included in total assets for 2010 are short term investments totalling \$3,704,723 in term deposits and accrued interest compared with \$6,966,165 at December 31, 2009.

CURRENT LIABILITIES

Current liabilities were \$279,686 as at December 31, 2010, as compared to \$509,853 as at December 31, 2009. The decrease is largely due to timing of expenditures.

SHAREHOLDERS' EQUITY

As at December 31, 2010 shareholders' equity was \$22,783,600 as compared to \$23,861,609 as at December 31, 2009.

Non-controlling interest represents amount arising from the minority position of Carbon Capital Management Inc. not held by HTC.

CASH FLOW

Cash flows from operating activities were \$(2,522,760) for the Year, compared to \$(3,872,076) for the year 2009. A significant portion of the negative cash flow position is due to the increase in Accounts Receivable from commercial activities, as well as deposits and prepaid amounts relating to pending acquisitions and technologies.

CHANGE IN CASH POSITION

Changes in cash position between December 31, 2010 and December 31, 2009 are largely attributable to current Accounts Receivables deposits, prepaid amounts and general use of funds in operations.

LIQUIDITY

The Corporation possesses adequate capital to meet its obligations. The Corporation will continue to raise capital to forward its plans of intellectual property protection, continued research and development, demonstration plants, acquisition of complementary technologies and commercialization of these developed and aggregated technologies.

COMMITMENTS

On February 23, 2009 the Corporation entered into a new office leasing agreement with the Saskatchewan Opportunities Corporation. The term of the lease is for a period of five years commencing April 1, 2009. Rent for the premises in the amount of \$9,167 are payable monthly on the 1st day of each and every month. In addition, the Corporation is required to make monthly instalment payments of \$6,270 on account for their share of occupancy costs (adjusted annually).

On August 25, 2010 the Corporation placed in trust, a \$304,398 deposit towards the acquisition of Canada's leading carbon offset Aggregation Company, of which \$250,000 is refundable. The acquisition is subject to various conditions precedents, which to date, have not been met.

CAPITAL RESOURCES

Share capital:

Authorized:

An unlimited number of common shares

An unlimited number of preferred shares

	As at Dec. 31, 2010 (Audited)		As at Dec. 31, 2009 (Audited)	
	Number	Amount	Number	Amount
Common Shares				
Balance, Beginning of year	17,959,195	\$36,542,214	\$17,429,451	\$35,266,918
Issued to acquire Carbon Rx Inc. (see note 3)	-	-	346,000	865,000
Issued under private placement	-	-	43,744	120,296
Issued under private placement	-	-	40,000	100,000
Issued to acquire Carbon Capital Management Inc.	-	-	100,000	190,000
Balance, end of Year	17,959,195	\$36,542,214	17,959,195	\$36,542,214

The Corporation has no issued or outstanding preferred shares. The Corporation is authorized to issue one or more series of non-voting, participating in preference to common shares, eligible, preferred shares.

On March 10, 2009 the Corporation issued 346,000 shares at \$2.50 per common share for the acquisition of Carbon Rx Inc. The common shares were subject to a hold period until July 11, 2009.

On May 8, 2009, the Corporation issued 43,744 common voting shares at a price of \$2.75 per share, under private placement, for the gross proceeds of \$120,296. These common shares were subject to a hold period under Securities Laws until September 9, 2009.

On December 14, 2009 the Corporation issued 40,000 common voting shares at a price of \$2.50 per share, under private placement, for gross proceeds of \$100,000. The shares were subject to a hold period until April 15, 2010.

On December 21, 2009 the Corporation issued 100,000 common shares at \$1.90 per share for the acquisition of Carbon Capital Management Inc. The shares were subject to a hold period until April 22, 2010.

Stock options and warrants:

The Corporation has a stock option plan for directors, officers, employees and consultants providing for the issuance of options to acquire up to ten percent of the issued and outstanding common shares of the Corporation. The following table reflects the stock option and warrants activity from January 1, 2009 through December 31, 2010 and the weighted average exercise price:

	As at Dec. 31, 2010 (Audited)		As at Dec. 31, 2009 (Audited)	
	Options	Avg. Price	Options	Avg. Price
Outstanding, and exercisable, beginning of year	3,267,909	\$3.26	3,386,091	\$3.20
Expired and cancelled (i, ii)	(2,717,909)	3.00	(218,182)	2.20
Stock options (iii,iv)	1,340,000	1.00	100,000	3.00
Stock options not yet vested (iv)	(170,000)	1.00	-	-
Outstanding and exercisable, End of Year	1,720,000	\$2.13	3,267,909	\$3.26

- i. In 2010 2,717,909 warrants expired, relating to a 2007 issuance of stock options which were exercisable at \$3.00 per common share.
- ii. In 2009 218,182 broker warrants issued in 2007 related to a share issuance and exercisable at \$2.20 per common share expired unexercised.
- iii. On December 21, 2009 the Corporation granted 100,000 units as part of a share issuance related to an acquisition. Each unit comprises one common share and one common share purchase warrant. Each warrant, subject to certain conditions, entitles the holder to purchase an additional common share at \$3.00 expiring December 15, 2014. No expense was recorded upon issuance.
- iv. On June 14, 2010 the Corporation granted 1,340,000 stock options to four directors and an officer of the Corporation, at a price of \$1.00 per common share with 1,170,000 options vesting in 2010, and with 100,000 and 70,000 vesting in 2011 and 2012

respectively, with an estimated fair value of \$538,000 at the grant date. The stock options will expire on June 12, 2015 or such earlier date on which the stock options are exercised. The grant and the terms and conditions of the Agreements have been approved by the board of directors.

The Black Scholes Option Pricing Model is used to estimate the fair value of stock options for calculating stock based compensation expense. The Corporation recognised a stock based compensation expense and a increase to contributed surplus based on the vesting schedule of the option, based on the following assumptions:

Date Granted	June 14, 2010
Number of options granted	1,340,000
Risk free interest rate	3.4%
Expected dividend yield	Nil
Expected stock price volatility	82.7%
Expected option life in years	5
Estimated forfeiture before exercise	100,000

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Change in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Corporation's stock options.

The total fair value of stock based compensation expense on stock options granted to employees and consultants of the Corporation for the year ended December 31, 2010 is \$485,000 (2009 - \$Nil).

OFF-BALANCE SHEET ARRANGEMENTS

The Corporation has no off balance sheet arrangements.

RELATED PARTY TRANSACTIONS

Related party transactions include management fees received from the Corporation's equity accounted investee, and transactions with corporate investors who have representation on the Corporation's board. The revenue and costs recognized with such parties reflect the prices and terms of sales and purchase of transactions with related parties in accordance with normal trade practices.

	Dec. 31, 2010	Dec. 31, 2009
Balance with related Parties:		
Accounts Receivable	\$1,318,132	\$223,904
Accounts Payable	-	155,388
Transactions with related parties:		
Consulting fees	411,750	273,069
Subcontract Revenue	1,570,817	-
Purchases	4,507	667,746

CRITICAL ACCOUNTING ESTIMATES

The Corporation has acquired a number of subsidiaries through the exchange of its common shares. Shares exchanged in order to acquire the respective companies have been valued at the respective acquisition date or announcement of agreement to acquire, based on the average closing market price of the Corporation's common shares three days prior and three days subsequent to the respective date and or agreed price.

On March 22, 2009 the Corporation acquired 100% of the voting stock of Carbon Rx Inc. in exchange for HTC shares.

On December 22, 2009 the Corporation acquired 90% of the voting stock of Carbon Capital Management Inc., in exchange for HTC shares. The non-controlling interest reflects the 10% interest held outside the Corporation. The Corporation recorded \$27,278 as a separate component of equity representing the minority interest holders' 10% share of the loss derived from CCM operations post acquisition.

	Carbon Rx Inc.	Carbon Capital Mgmt. Inc.
Acquisition Date	Mar. 10, 2009	Dec. 22, 2009
Share valuation date	Mar. 9, 2009	Dec. 21, 2009
Price per share (\$) (approximate)	2.50	1.90
Number of shares - HTC	346,000	100,000
Purchase price Acquisitions costs	\$865,000	\$190,000 23,096
Allocation of Purchase Price		
Intangibles	<u>\$865,000</u>	
Goodwill		<u>\$213,096</u>

Goodwill and Intangible Assets

	Dec. 31, 2010 (Audited)	Dec. 31, 2009 (Audited)
Goodwill	\$3,678,195	\$3,670,099
Intangible Assets subject to amortization	7,978,564	9,043,663
Adjustment for intangible impairment	-	(1,065,099)
Amortization of Intangible Assets	(3,548,926)	(3,121,085)
	<u>\$8,107,833</u>	<u>\$8527,578</u>

Management performed an analysis of the carrying value of its goodwill and intangible assets as at December 31, 2010, according to its policy as set out in Note 2 of the Consolidated Annual Financial Statements. Based on Management's forecasted cash flows, including consideration of risks inherent therein, the Corporation has concluded that there is no requirement for adjustment to the carrying value of goodwill or intangible assets as at December 31, 2010. This assessment

is subject to the estimates and measurement uncertainty as disclosed in the Consolidated Annual Financial Statements.

Goodwill and intangible assets were recorded on acquisition of the subsidiaries. GAAP requires identifiable intangible assets that meet recognition criteria be identified, valued and disclosed separately from goodwill. Items giving rise to intangibles and related goodwill include, but are not limited to: intellectual property (i.e. rights to provisional patents, technology rights software rights), contractual rights with advantageous conditions, human resources (i.e. research teams, project management, patent resources), and branding and name recognition related items (literature, data base, videos, domain names, etc) as well as various other items. Goodwill comprises the difference between the purchase price of the respective subsidiary and identifiable net tangible and intangible assets.

During the 2009 year, Management completed an evaluation of its intangible assets not subject to amortization and its goodwill. As a result of the review of intangible assets, not subject to amortization, management concluded the following:

Due to the increased emphasis in the development of related technology, Management considered that the ongoing value associated with specific intangibles had been marginalized and or become dated, and adjusted the carrying value accordingly.

The remaining intangibles were not impaired, however these would no longer likely be of benefit beyond the life of a typical patent or other similar long lived asset and accordingly amortization of these remaining intangible assets commenced.

Management, including subsequent consideration, also concluded that goodwill was not impaired as at December 31, 2009. The 2009 financial statements included a misclassification of the above noted impairment adjustment to intangible assets as an adjustment to goodwill which has not resulted in a misstatement of reported net earnings or the net balance of intangible assets and goodwill, and therefore the prior year financial statements have not been restated. This classification has been adjusted in the comparative figures of the note above in the current year financial statements.

EQUITY INVESTMENT

The Corporation has a 45% voting interest in Maxx Energy Solutions Corp. ("Maxx"), and accounts for its investment using the equity method. In 2010 the Corporation recorded \$173,314 of equity earnings from its investment in Maxx (2009 - \$84,471). The equity earnings have been added to the carrying value.

DIRECTOR AND OFFICER COMPENSATION

During the twelve months ending December 31, 2010 the Corporation paid director compensation in the amount of \$2,500 respectively (\$5,000 in total) to two directors, namely Wayne Bernakevitch and James Rybchuk, for their attendance of Board and committee meetings.

On June 14, 2010 the Corporation granted 1,340,000 stock options at a price of \$1.00 per common share. The stock options were granted as follows: 450,000 to director Lionel Kambeitz, 250,000 to director Wayne Bernakevitch, 270,000 to director Jeffrey Allison, 100,000 to director

James Rybchuk, and 270,000 to Officer Thor McDonald. The stock options will expire on June 12, 2015 or such earlier date on which the stock options are exercised (see Stock Options and Warrants above).

CHANGE IN ACCOUNTING PRINCIPLES

In 2009 the Corporation changed its estimate associated with intangible assets acquired on acquisition that were not subject to amortization, reclassifying these to being subject to amortization with the change in estimate being done prospectively on the date of determination.

Adoption of CICA 1582, 1601, and 1602

In January 2009, the Canadian Institute of Chartered Accountants (“CICA”) issued handbook Sections 1582, Business Combinations (“Section 1582”), 1601, Consolidated Financial Statements (“Section 1601”), and 1602, Non-Controlling Interests (“Section 1602”), which replaced CICA Handbook Sections 1581, Business Combinations, and 1600, Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that are equivalent to the business combination accounting standard under International Financial Reporting Standards. Section 1582 and Sections 1601 and 1602 are applicable for the Corporation’s interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011 with early adoption of these sections is permitted, provided all three sections are adopted at the same time. The Corporation has adopted these sections in 2010. There has been no impact to historical reported results upon adoption of Section 1582, 1601 and 1602.

FUTURE CHANGES IN ACCOUNTING PRINCIPLES

International Financial Reporting Standards (“IFRS”)

The Accounting Standards Board (AcSB) has announced that Canadian publicly accountable enterprises will be required to adopt IFRS effective January 1, 2011. Although IFRS employs a conceptual framework that is similar to Canadian GAAP, differences in accounting policies will have to be addressed. The Corporation has undertaken a project to make the transition to IFRS and is executing its plan to ensure compliance with the new standards. HTC also expects to implement changes to certain processes and systems in order to comply with IFRS and will report under IFRS beginning in the first quarter of fiscal 2011.

As required by IFRS 1 adjustments required on transition to IFRSs will be made retrospectively against opening retained earnings as of the date of the first comparative balance sheet presented based on standards applicable at that time. For HTC, this is January 1, 2010. “First-Time Adoption of International Financial Reporting Standards” (“IFRS 1”) provides entities adopting IFRSs for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRSs.

TRANSITIONAL ELECTIONS (under IFRS 1 First Time Adoption)

The following summary provides details of the opening statement of financial position transitional provisions to be adopted effective January 1, 2010.

- *Share Based Payments: IFRS 2, Share Based Payment*, encourages application of its provisions to equity instruments granted on or before November 7, 2002, if fair value

information about these instruments had previously been publicly disclosed. As the fair value of the Corporation's instruments had not been historically disclosed, the Corporation will not restate share-based payment balances in relation to fully vested awards of share-based payments prior to January 1, 2010.

- *Property, plant and equipment ("PP&E")*: No transitional elections will be taken. The Corporation will retain assets at historical cost upon transition rather than taking the allowed election to recognize assets at fair value.

In addition to the key areas outlined above, the use of the following additional transitional exemptions, available under IFRS 1, has been agreed by management and the Audit Committee.

- *Business Combinations*: The Corporation will not retrospectively restate any business combinations; IFRS 3 will be applied prospectively to acquisitions after January 1, 2010.
- *Cumulative Translation Adjustments*: All cumulative translation adjustments and associated gains and losses will be "reset" to zero as at the date of transition, all historic amounts will be transferred from accumulated other comprehensive loss to retained earnings.

The following notes explain the significant adjustments to the Corporation's Canadian GAAP statement of financial position at January 1, 2010, as a result of the Corporation's transition to IFRS:

- *Share-based Payments*: Under Canadian GAAP, the Corporation values stock-based compensation that vests in tranches as a single grant. IFRS requires that each share-based compensation tranche be valued as a separate grant with a separate vesting date. The Corporation does not expect an adjustments to arise from this adoption
- *Accumulated Other Comprehensive Loss*: The Corporation does not expects to record any change from this adoption

ADDITIONAL IMPACTS EXPECTED ON THE CORPORATION'S IFRS 2010 FINANCIAL STATEMENTS

In addition to the above noted impacts on our consolidated statement of financial position at January 1, 2010, the Corporation anticipate the additional following impacts on its 2010 consolidated financial statements as a result of its upcoming conversion to IFRS:

- *Foreign Currency Translation of Subsidiary (CO₂ Technologies Pty "CO₂")*: Under Canadian GAAP, the translation methodology of a foreign subsidiary is determined by whether the subsidiary is a self-sustaining or an integrated operation. Under IFRS, the functional currency of the subsidiary determines the translation methodology. As CO₂ functional currency has been initially assessed as the Australian Dollar, CO₂ will be consolidated under IFRS using the current rate method. Under Canadian GAAP, CO₂ was determined to be an integrated operation and therefore translated using the temporal method. Given that CO₂ was acquired December 4, 2008, had nominal amounts denominated in Australian dollars and Canadian exchange rates have been relatively stable, the impacts of this GAAP difference are expected to be insignificant.

IFRS ACCOUNTING POLICY IMPACTS

In addition to the transitional and other impacts described above, there are several accounting policy impacts which will impact the Corporation on a go-forward basis. This is not an exhaustive list, but it provides an indication of the main accounting policy choices which will apply to the Corporation under IFRS effective January 1, 2011 with comparatives presented for 2010:

- **Share-based payments:** All share-based payments will be valued at fair value under IFRS using an option pricing model. The Corporation has selected the Black Scholes option pricing model. This is consistent with the Corporation's current accounting policy. However, under IFRS, the valuation of stock options and restricted share unit ("RSU") awards requires individual "tranche based" valuations for those option and RSU plans with graded vesting, while Canadian GAAP allows a single valuation for all tranches. Therefore, under IFRS each installment of option and RSU award will be treated as a separate option or RSU grant, and the fair value of each installment will be amortized over each installment's vesting period instead of recognizing the entire award on a straight-line basis over the term of the grant. The impact of this change on the income statement is not expected to be significant.
- **Property, Plant and Equipment ("PP&E"):** Under IFRS, PP&E may be accounted for using either a cost or revaluation model. The Corporation has elected to use the cost model for all classes of property, plant and equipment. This is consistent with the Corporation's current accounting policy and hence will not impact the Corporation's PP&E balances.
- **Impairment of Assets:** If there is an indication that an asset may be impaired, an impairment test must be performed. Under Canadian GAAP, this is a two-step impairment test in which (i) undiscounted future cash flows are compared to the carrying value; and (ii) if those undiscounted cash flows are less than the carrying value, the asset is written down to fair value. Under IFRS, an entity is required to assess, at the end of each reporting period, whether there is any indication that an asset may be impaired. If such a condition exists, the entity shall estimate the recoverable amount of the asset by performing a one-step impairment test, which requires a comparison of the carrying value of the asset to the higher of (1) value in use; and (ii) fair value less costs to sell. Value in use is defined as the present value of future cash flows expected to be derived from the asset in its current state. In addition, IFRS requires PP&E, goodwill and intangibles to be assessed for impairment at the cash-generating unit ("CGU") level, rather than the reporting unit level considered by Canadian GAAP. As a result of this difference, in principle, impairment write downs may be more likely under IFRS than are currently identified and recorded under Canadian GAAP. The extent if any of any new write downs, however, may be partially offset by the requirement under *IAS 36 Impairment of Assets*, to reverse any previous impairment losses where circumstances have changed such that the impairments have been reduced. Canadian GAAP prohibits reversal of impairment losses. The Corporation has concluded that the adoption of these standards will not result in a change to the carrying value of our PP&E, but are assessing the potential impact of Goodwill and Intangible Assets on transition to IFRS being January 1, 2010.
- **Business Combinations:** Under IFRS, the Corporation will account for all business combinations from January 1, 2010 onwards in accordance with *IFRS 3 Business Combinations*. Given that the Corporation adopted Canadian CICA Handbook Section

1582 as of January 1, 2010 which is substantially converged with IFRS 3, the Corporation does not expect any impact.

- *Provisions:* Under Canadian GAAP, a provision is required to be recorded in the financial statements when required payment is considered “likely” and can be reasonably estimated. The threshold for recognition of provisions under IFRS is lower than that under Canadian GAAP as provisions must be recognized if required payment is “probable”. Therefore, in principle, it is possible that there may be some provisions which would meet the recognition criteria under IFRS that were not recognized under Canadian GAAP. Other differences between IFRS and Canadian GAAP exist in relation to the measurement of provisions, such as the methodology for determining the best estimate where there is a range of equally possible outcomes (IFRS uses the mid-point of the range, whereas Canadian GAAP use the low end of the range), and the requirement under IFRS for provisions to be discounted where material. The Corporation is in the process of reviewing its positions to determine if there will be any adjustments to our financial statements on transition to IFRS arising from the application of IFRS provisions recognition and measurement guidance.
- *Functional Presentation:* Under IFRS, operating expenses must be presented on either a functional or type of expenditure basis. Under Canadian GAAP, operating expenses could be presented using a mix of both function and type of expenditure. The Corporation has elected to use the functional classification basis for the presentation of its operating expenses. As a result, the operating expenses of depreciation and amortization, which are individually presented in the Statement of Operations under Canadian GAAP, will be reallocated to the new functional categories (under review). Potential functional categories being considered include but are not limited to; research and product development general and administrative expense. Management continues to monitor standards to be issued by the IASB, but it remains difficult to predict the IFRS that will be effective at the end of the Corporation’s first IFRS reporting period (December 2011), as the IASB work plan anticipates the completion of several projects during 2011. Their projects on employee benefits, revenue, financial instruments, and provisions are especially relevant to the Corporation.

IFRS OTHER IMPACTS

In addition to the above noted impacts to our financial statements and accounting policies, the Corporation has also reviewed the expected impact of its upcoming conversion to IFRS on its information technology and data systems, internal controls over financial reporting, business processes, contractual arrangements and compensation arrangements.

- *Training:* The Corporation is in the process of providing IFRS training for key employees, senior management and the Audit Committee. It will continue to provide additional training and updates throughout the conversion period;
- *Information technology and data systems:* The Corporation has assessed the impact on system requirements for the conversion and post-conversion periods and expect there will be no significant impact to applications arising from the transition to IFRS;

- *Disclosure controls and procedures: The Corporation is assessing the impact on its disclosure controls and procedures and expects there will be no significant impact arising from the transition to IFRS.*
- *Internal control over financial reporting: The Corporation has identified the required accounting process changes that result from the application of IFRS accounting policies; these changes are not considered significant. As part of the transition project, the Corporation will complete the design, implementation and documentation of the accounting process changes that result from the application of IFRS accounting policies. Management believe that the Corporation's current framework of internal control over financial reporting and disclosure controls and procedures is sufficiently robust to incorporate the changes to the financial reporting processes as a result of our conversion to IFRS.*

The Corporation's transition plans relating to IFRS are on schedule.

FINANCIAL INSTRUMENTS

The Corporation classifies its financial instruments into one of the following categories: held-for-trading; held-to-maturity; loans and receivables; available-for-sale; and other liabilities. All financial instruments are measured at fair value on initial recognition. Transaction costs are included in the initial carrying amount of financial instruments except for held-for-trading instruments in which case the transaction costs are expensed as incurred. Measurement in subsequent periods is based on the classification of the financial instrument.

Financial assets and liabilities classified as held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income.

The Corporation's financial instruments consist of cash and cash equivalents, short term investments, accounts receivable, accounts payable and accrued liabilities, and available-for-sale investments carried at fair value. The fair values of cash, short term deposits, accounts receivable, accounts payable and accrued liabilities approximate carrying value because of the short-term nature of these instruments.

The fair value of available-for-sale investments other than those carried at cost is based on prices quoted on over the counter exchanges. The fair value of available-for-sale investments accounted for according to the cost basis is not practical to determine as the investments are not publicly traded.

The investment in EESTech Inc. is classified as available for sale. EESTech Inc. shares are issued on the US over the counter exchange and are subject to Rule 144 of the US Securities Act 1933 trading restrictions. They have been adjusted to their fair value as at December 31, 2010 based on year end quoted prices obtained from over the counter exchanges.

The investment in Global Energy Inc. is classified as available for sale. As it is a U.S. private company, they remain recorded at cost and have not been adjusted to their fair value as at December 31, 2010 as there is no quoted active market for these securities.

The investment in USA Synthetic Fuel Corp (UAFC) is classified as available for sale. USFC shares are issued on the US over the counter exchange. They remain recorded at cost and have not been adjusted to their fair value as at December 31, 2010 due to restrictions imposed on trading through the reorganization and issuance of shares.

The Maxx Energy Solutions Corp. investment represents 45% of the issued shares and is recorded using the equity method

Financial Risk Management

Management's risk management policies are typically performed as a part of the overall management of the Corporation's operations. Management is aware of risks related to these objectives through direct personal involvement with employees and outside parties. In the normal course of its business, the Corporation is exposed to a number of risks that can affect its operating performance. Management's close involvement in operations helps identify risks and variations from expectations. The Corporation has not designated transactions as hedging transactions to manage risk. As a part of the overall operation of the Corporation, management considers the avoidance of undue concentrations of risk. These risks and the actions taken to manage them include the following:

Liquidity risk is the risk that the Corporation cannot meet its financial obligations associated with financial liabilities in full. The Corporation's main sources of liquidity are its operations, and equity financing. The funds are primarily used to finance working capital and capital expenditure requirements and are adequate to meet the Corporation's financial obligations associated with financial liabilities.

Currency risk is the risk that changes in foreign exchange rates may have an effect on future cash flows associated with financial instruments. The Corporation has no significant transactions denominated in foreign currency and is not exposed to any material foreign currency risk aside from broad unquantifiable macroeconomic factors arising from fluctuations in foreign exchange which could result in Canadian products becoming more expensive to international purchasers.

Foreign exchange risk is primarily associated with contracts for services and contracts of supplies and services. Substantially all of the Corporation's revenues and expenses are denominated in Canadian dollars, and therefore is isolated from foreign exchange risk.

Interest rate risk primarily is associated with interest fluctuations earned on the Corporation's cash and term deposits. The Corporation mitigates exposure by attempting to match rates and terms to expected cash requirements, and through having the majority of its revenues and expenses denominated in Canadian dollars. A 1% change in the prime interest rate would have a negligible impact on the Corporation's income.

Credit risk is the risk of financial loss if a counterparty to a financial transaction fails to meet its obligations. The Corporation attempts to reduce such exposure to its cash, and short term deposits by only investing in low risk investments with Canadian Chartered Banks and taking advantage of government guarantees. The Corporation attempts to reduce its loss on amounts receivable by assessing the ability of the counterparties to fulfill their obligation under contract

prior to entering into the contracts and by the nature of customers the Corporation deals with. There have been no significant impairment losses recorded on accounts receivable.

OTHER MD&A REQUIREMENTS

The Corporation has commenced capitalization of development costs relating to the CCS Pureenergy[®] CO₂ carbon capture system. Costs accumulated to date are \$370,360. The Corporation also started capitalizing the costs of a Mixed Amine Solvent Reclaimer, costs accumulated to date are \$217,033, the CCS FEEDengine[®] costs accumulated to date are \$162,783 and also the EHR Rising Bubble Apparatus costs accumulated to date are \$8,800.

Expensed research and development costs and commercialization, product development, general and administration expenses are included in the December 31, 2010 Audited Financial Statements. Total accumulated research and development costs expensed from December 23, 2004 to December 31, 2010 are \$3,031,097. Research and development costs incurred by subsidiaries prior to their acquisition are not included in this amount nor are costs incurred directly by the University of Regina.

Signed "Lionel Kambeitz"
LIONEL KAMBEITZ
CHAIRMAN & CEO

Signed "Jeffrey Allison"
JEFFREY ALLISON
SR. VICE- PRESIDENT & CFO

HTC PUREENERGY INC.
‘doing business as’
HTC PUREENERGY

To the Shareholders of HTC Pureenergy Inc.

Management’s Accountability for Management Discussion and Analysis and Financial Statements

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Management is responsible for ensuring that these statements, which include amounts based upon estimates and judgment, are consistent with other information and operating data contained in management’s discussion and analysis and reflect the Corporation's business transactions and financial position.

Management is also responsible for the information disclosed in the management’s discussion and analysis including responsibility for the existence of appropriate information systems, procedures and controls to ensure that the information used internally by management and disclosed externally is complete and reliable in all material respects.

In addition, management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Corporation’s assets are appropriately accounted for and adequately safeguarded. Management has concluded that the Corporation’s system of internal control over financial reporting was effective as at December 31, 2010.

Virtus Group LLP has audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards.

The board of directors annually appoints an audit committee which includes directors who are not employees of the Corporation. This committee meets regularly with management and the shareholders' auditors to review significant accounting, reporting and internal control matters. The shareholders' auditors have unrestricted access to the audit committee. The audit committee reviews the financial statements, the report of the shareholders' auditors, and management’s discussion and analysis and submits its report to the board of directors for formal approval.

Management has reviewed the filing of the Corporation’s management discussion and analysis, consolidated financial statements, and attachments thereto for the year ended December 31, 2010 attached hereto. Based on our knowledge, having exercised reasonable diligence, this filing does not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, with respect to the year covered by this filing. The statements together with the other financial information included in this filing fairly present in all material respects the financial condition, results of operation and cash flows of the Corporation, as of the date and for the periods presented in this annual filing.

Signed “Lionel Kambeitz”
LIONEL KAMBEITZ
CHAIRMAN & CEO

Signed “Jeffrey Allison”
JEFFREY ALLISON
SR. VICE-PRESIDENT & CFO

Independent Auditors' Report

To the Shareholders, HTC Pureenergy Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of **HTC Pureenergy Inc.** which comprise the consolidated balance sheets as at **December 31, 2010 and 2009** and the consolidated statements of operations and deficit, comprehensive deficit, accumulated other comprehensive deficit, and cash flows for the years then ended, and summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation circumstances, but not for the purpose of expressing an opinion of the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of HTC Pureenergy Inc. as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed "Virtus Group LLP"

Chartered Accountants

Regina, Canada

April 28, 2011

HTC PUREENERGY INC.

Consolidated Balance Sheets

(In Canadian dollars)

As at December 31	2010	2009
ASSETS		
Current Assets:		
Short term deposits (Note 3)	\$ 3,704,723	\$ 6,966,165
Accounts receivable	1,824,259	450,387
Inventory	83,490	-
Prepaid expenses and other assets (Note 4)	789,884	466,680
	<u>6,402,356</u>	<u>7,883,232</u>
Property, plant and equipment (Note 6)	199,884	200,144
Product development (Note 7)	758,976	466,124
Investments (Note 8)	7,482,279	7,228,673
Patents (Note 9)	111,958	65,711
Goodwill and intangible assets (Note 10)	8,107,833	8,527,578
	<u>23,063,286</u>	<u>24,371,462</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Bank overdraft	5,211	68,426
Accounts payable and accrued liabilities	274,475	441,427
	<u>279,686</u>	<u>509,853</u>
Shareholders' Equity:		
Share capital (Note 11)	36,542,214	36,542,214
Contributed Surplus (Note 12)	485,000	-
Retained deficit	(14,055,084)	(12,680,605)
Accumulated other comprehensive loss	(188,530)	-
Total equity attributable to shareholders of the Company	<u>22,810,878</u>	<u>23,861,609</u>
Total equity (deficit) attributable to non-controlling interest (Note 5)	(27,278)	-
Total equity	<u>22,783,600</u>	<u>23,861,609</u>
Total liabilities and equity	<u>\$ 23,063,286</u>	<u>\$ 24,371,462</u>

Commitments (Note 19)

See accompanying notes to the Consolidated Financial Statements

HTC PUREENERGY INC.
Consolidated Statements of Operations and Deficit
(In Canadian dollars)

For the Years ended December 31	2010	2009
Revenue:		
Engineering, process design & consulting	\$ 3,358,591	\$ 384,640
	3,358,591	384,640
Expenses:		
Commercialization, product development and Administration	3,754,493	3,660,003
Research and development	613,863	1,149,684
Amortization expense recorded on:		-
Property plant and equipment	57,324	48,662
Patents	6,292	5,139
Intangible assets	427,840	500,738
	4,859,812	5,364,226
Loss from commercial operations	(1,501,221)	(4,979,586)
Other income (expense):		
Interest and other income	115,068	146,145
Dividend Income	319,938	-
Gain on sale of assets	3,422	-
Stock based compensation expense (Note 12)	(485,000)	-
Loss from operations	(1,547,793)	(4,833,441)
Adjustment to carrying value of intangible assets (Note 10)	-	(1,065,099)
Loss for the year before the following:	(1,547,793)	(5,898,540)
Income from equity investments (net of tax)	173,314	84,471
Net loss for the year	(1,374,479)	(5,814,069)
Loss for the year attributable to:		
Shareholders of the company	(1,347,201)	-
Non-controlling interest	(27,278)	-
Deficit – beginning of year	(12,680,605)	(6,866,536)
Deficit – end of year	\$ (14,055,084)	\$ (12,680,605)
Loss per share -basic and diluted	\$ (0.08)	\$ (0.33)
Weighted Average shares outstanding		
Basic	17,959,195	17,741,981
Diluted	19,679,195	21,009,980

See accompanying notes to the Consolidated Financial Statements

HTC PUREENERGY INC.

Consolidated Statement of Comprehensive Deficit (In Canadian dollars)

For the Years ended December 31	2010	2009
Net Loss	\$ (1,374,479)	\$ (5,814,069)
Unrealized loss on available for sale financial assets	(188,530)	-
Other comprehensive loss for year	(188,530)	-
Comprehensive net loss	\$ (1,563,009)	\$ (5,814,069)

Consolidated Statement of Accumulated Other Comprehensive Deficit (In Canadian dollars)

For the Years ended December 31	2010	2009
Balance, beginning of year	\$ -	\$ -
Other comprehensive loss	(188,530)	-
Balance, end of year	\$ (188,530)	\$ -

See accompanying notes to the Consolidated Financial Statements

HTC PUREENERGY INC.
Consolidated Statements of Cash Flows
(In Canadian dollars)

For the Years ended December 31,	2010	2009
Cash Flows from Operating Activities:		
Net loss	\$ (1,374,479)	\$ (5,814,069)
Items not affecting cash:		
Amortization	491,456	554,539
Stock based compensation	485,000	-
Income from equity investments	(173,314)	(84,471)
Gain on sale of assets	(3,422)	-
Write down of intangible assets	-	1,065,099
Change in working capital and other	(1,948,001)	406,826
	<u>(2,522,760)</u>	<u>(3,872,076)</u>
Cash flows from investing activities:		
Decrease in short-term deposits	3,261,442	3,666,436
Cash change in investments and loans	(268,338)	101,372
Purchase of equipment (net)	(53,642)	(167,935)
Legal costs on incorporation of subsidiaries	(8,096)	(15,000)
Capitalized development	(292,852)	(176,571)
Patents	(52,539)	-
	<u>2,585,975</u>	<u>3,408,302</u>
Cash flows from financing activities:		
Cash from issuance of share capital	-	220,296
Increase (decrease) in cash during the year	63,215	(243,478)
Cash (bank overdraft) –beginning of year	(68,426)	175,052
Bank overdraft – end of year	<u>\$ (5,211)</u>	<u>\$ (68,426)</u>
Supplemental cash flow information		
Cash interest received	50,609	146,154

See accompanying notes to the Consolidated Financial Statements

HTC PUREENERGY INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2010 and 2009

1. Operations:

HTC Pureenergy Inc. is incorporated under the *Business Corporations Act* (Alberta). HTC and its subsidiaries are development stage companies whose commercial business is the development, aggregation and commercialization of proprietary technologies relating to CO₂ capture, CO₂ and Polymer enhanced oil recovery, CO₂ storage, and carbon credit origination, inventorying and monetization.

2. Significant accounting policies:

These Financial Statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”). Those principles, which have a significant impact on the Consolidated Financial Statements, are summarized below.

Consolidation

The Consolidated Financial Statements include the accounts of the Corporation and its subsidiaries 101079353 Saskatchewan Ltd., HTC Hydrogen Thermochem Corp. (“**Thermochem**”), HTC International Inc. (“**HTC International**”), BTC BioEnergy Technologies Corp. (“**BTC**”), Performance CO₂ Integration Inc. (“**Performance**”), CO₂ Technologies Pty. Ltd. (“**CO2**”), Carbon Rx Inc. (“**CRX**”), Carbon Capital Management Inc. (“**CCM**”) and EHR Enhanced Hydrocarbon Recovery Inc. (“**EHR**”). The Corporation has accounted for the business combinations using the acquisition method of accounting.

Significant influence investments

The Corporation utilizes the equity method of accounting for investments where the Corporation has significant influence. The Corporation’s 45% equity investment in Maxx Energy Solutions Corp. (formerly Kingsteel Inc.) is accounted for using the equity method whereby the initial investment is recorded at cost and adjustments are made to include HTC’s proportionate share of the investment’s net earnings and losses. The balance is reduced for any dividends received. These proportionate adjustments for income are included in HTC’s earnings.

Foreign currency translation

The Corporation utilizes the temporal method for translating foreign currency of integrated foreign operations. In accordance with these provisions monetary assets and liabilities are translated using the rate of exchange at the Consolidated Financial Statement date and non-monetary assets liabilities are translated using the historical exchange rate at the transaction date. Revenues and expenses are translated using the average exchange rate in effect for the period.

Short term deposits

Short term deposits consist of highly liquid interest bearing cashable securities.

HTC PUREENERGY INC.

Notes to Consolidated Financial Statements Years ended December 31, 2010 and 2009

2. Significant accounting policies (continued):

Inventory

Inventory is comprised of work in progress including materials, services, labour and related overhead associated with projects in progress.

Property, plant and equipment

Property plant and equipment is recorded at cost and depreciated over its useful life at rates of 30% on a declining balance basis except for leasehold improvements which are amortized on a straight line basis over three years. The amortization period requires estimation of the useful life of the asset and its salvage and residual value. Long-lived assets are tested for recoverability if events or changes in circumstances indicate that the carrying amount may not be recoverable.

The carrying amount of a long-lived asset is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. Impairment losses are measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. As is true for all accounting estimates, it is possible that changes in future conditions could require changes in the recognized amounts for accounting estimates.

Financial instruments

The Corporation classifies its financial instruments into one of the following categories: held-for-trading; held-to-maturity; loans and receivables; available-for-sale; and other liabilities. All financial instruments are measured at fair value on initial recognition. Transaction costs are included in the initial carrying amount of financial instruments except for held-for-trading instruments in which case the transaction costs are expensed as incurred. Measurement in subsequent periods is based on the classification of the financial instrument.

Financial assets and liabilities classified as held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income.

Patents

Costs associated with registration of patents are accumulated at cost and when registration is complete amortized on a straight line basis over 15 years. Patents are evaluated for impairment annually and any impairment is charged to earnings as identified.

Intangible assets

Identifiable intangible assets acquired through acquisitions that are subject to amortization are amortized using the straight-line method over their estimated useful lives of 4 to 20 years.

HTC PUREENERGY INC.

Notes to Consolidated Financial Statements Years ended December 31, 2010 and 2009

2. Significant accounting policies (continued):

Intangible assets not subject to amortization are evaluated for indicators of impairment annually, and any impairment identified is charged to earnings as identified.

Research and development

Research costs are expensed as they are incurred in accordance with specific criteria set out under Canadian GAAP. Product development costs are expensed as incurred except if the costs are related to the development and setup of new products, processes and systems, and satisfy certain conditions for capitalization, including reasonable assurance that they will be recovered. All capitalized development costs are amortised when commercial production begins based on the expected useful life of the completed product. The carrying value of capitalized development costs are examined for recoverability annually.

In 2009 and 2010 the costs associated with the development of the CCS Pureenergy[®] 1000 and HTC's Mixed Amine Solvent Reclaimer, have been capitalized. In 2010, the costs incurred in the year related to the development of the CCS FEEDengine[®] and the EHR Rising Bubble Apparatus began to be capitalized in accordance with the specific criteria under Canadian GAAP.

Goodwill

The excess of the purchase price over the fair market value of identifiable assets acquired and liabilities assumed is recognized as goodwill. Goodwill is assessed for impairment at least annually, or more frequently if events or changes in circumstances indicate that the goodwill might be impaired. The assessment of impairment is based on estimated fair market values derived from certain valuation models, which may consider various factors such as estimated future earnings, terminal values and discount rates.

An impairment loss, if any, is recognized to the extent that the carrying amount of goodwill exceeds its estimated market value. As at December 31, 2010, the date of the last impairment test, goodwill was not considered to be impaired. As documented in "Measurement Uncertainty" below, the impairment test of goodwill involves significant estimates and judgement based on the information available to management at the date of the impairment test. Should these assumptions and estimates be incorrect, the carrying value of goodwill may differ from the amount recorded by a material amount.

Stock-based compensation

The Corporation used the fair-value based method of accounting for share-based compensation for all awards of share options granted. The fair value at the grant date of share options ("options") is calculated using the Black-Scholes valuation method. Compensation expense is charged to net income over the vesting period with a corresponding increase to contributed surplus.

HTC PUREENERGY INC.

Notes to Consolidated Financial Statements Years ended December 31, 2010 and 2009

2. Significant accounting policies (continued):

The Corporation issues shares and share options under its share-based compensation plans as described in Note 12. Any consideration paid by employees on exercise of share options or purchase of shares, together with the amount initially recorded in contributed surplus, is credited to share capital.

Revenue recognition

Revenue from engineering process design and consulting is recognized upon substantial completion of the transaction and when transfer is affected to the contracting party, obligations discharged, the amount is determinable, and collectability is reasonably assured. Project revenue is recognized as funds are earned or as amounts become receivable in accordance with performance of the terms or milestones of the contractual arrangements. Interest revenue is recorded when earned, and dividends and management fees from equity accounted investees are recorded when declared and receivable.

Government grants and bursaries

Funding from these sources are offset against the related expense or asset addition unless repayable conditions or terms are attached in which case they are recorded separately.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax basis (temporary differences).

The resulting changes in the net future tax asset or liability are included in income. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. Future income tax assets are evaluated and if realization is not considered "more likely than not" a valuation allowance is provided.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the year.

Significant items subject to estimates and assumptions include the carrying amounts of goodwill and intangible assets, product development, underlying estimations of useful lives of depreciable assets, capitalization of interest, the carrying amounts of accounts receivable,

HTC PUREENERGY INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2010 and 2009

2. Significant accounting policies (continued):

investments, fair value of financial instruments, and environmental remediation and contingent liabilities, if any.

These financial statements are based on management's best estimates using information available. Uncertainty regarding the timing of anticipated large scale market demand for carbon capture technology, related legislative incentives, and uncertainty in financial markets has complicated the estimation process. Accordingly, the inherent uncertainty involved in making estimates and assumptions may impact the actual results reported in future periods by a material amount.

Changes to accounting policies and future changes to accounting standards:

i. Adoption of CICA 1582, 1601, and 1602

In January 2009, the Canadian Institute of Chartered Accountants ("CICA") issued handbook Sections 1582, *Business Combinations* ("Section 1582"), 1601, *Consolidated Financial Statements* ("Section 1601"), and 1602, *Non-Controlling Interests* ("Section 1602"), which replaced CICA Handbook Sections 1581, *Business Combinations*, and 1600, *Consolidated Financial Statements*. Section 1582 establishes standards for the accounting for business combinations that are equivalent to the business combination accounting standard under International Financial Reporting Standards.

Section 1582 and Sections 1601 and 1602 are applicable for the Corporation's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011 with early adoption of these sections is permitted, provided all three sections are adopted at the same time. The Corporation has adopted these sections in 2010. There has been no impact to historical reported results upon adoption of Section 1582, 1601 and 1602.

ii. International Financial Reporting Standards ("IFRS")

The Accounting Standards Board (AcSB) has announced that Canadian publicly accountable enterprises will be required to adopt IFRS effective January 1, 2011. Although IFRS employs a conceptual framework that is similar to Canadian GAAP, differences in accounting policies will have to be addressed. The Corporation has undertaken a project to make the transition to IFRS and is executing its plan to ensure compliance with the new standards. HTC also expects to implement changes to certain processes and systems in order to comply with IFRS and will report under IFRS beginning in the first quarter of fiscal 2011.

HTC PUREENERGY INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2010 and 2009

3. Short term deposits:

Short term deposits consist of redeemable GIC's with interest paid monthly at 1.15% (2009 – 1.05%).

4. Prepaid expenses and other assets:

Prepaid expenses and other assets included the following:

On August 25, 2010 the Corporation placed in trust a \$304,398 deposit towards the acquisition of a company associated with carbon capture arbitrage, of which \$250,000 is refundable. The acquisition is subject to various conditions precedent, which to date, have not been met.

On April 17, 2009 and June 26, 2009, the Corporation placed non refundable deposits totalling \$250,000 USD (\$299,261 CAD), providing the Corporation the ability to participate with a partner in developing coal reserves for creation of synthetic gas, along with related carbon capture infrastructure for the project. At December 31, 2010 certain preconditions required to commence activity had yet to be completed.

5. Business acquisition:

The Corporation has acquired a number of subsidiaries through the exchange of its common shares. Shares exchanged in order to acquire the respective companies have been valued at the respective acquisition date or announcement of agreement to acquire, based on the average closing market price of the Corporation's common shares three days prior and three days subsequent to the respective date and or agreed price.

On March 22, 2009 the Corporation acquired 100% of the voting stock of CRX. in exchange for HTC shares.

On December 22, 2009 the Corporation acquired 90% of the voting stock of CCM, in exchange for HTC shares. The non-controlling interest reflects the 10% interest held outside the Corporation. The Corporation recorded \$27,278 as a separate component of equity representing the minority interest holders' 10% share of the loss derived from CCM operations post acquisition.

HTC PUREENERGY INC.
Notes to Consolidated Financial Statements
Years ended December 31, 2010 and 2009

5. Business acquisition (continued)

Transactions are summarized below:

Transaction Detail	CRX	CCM
Acquisition date	March 10, 2009	December 22, 2009
Share valuation date	March 09, 2009	December 21, 2009
Price per share	\$ 2.50	\$ 1.90
Number of shares issued on acquisition	346,000	100,000
Purchase price	\$ 865,000	\$ 190,000
Acquisition costs	-	23,096
	\$ 865,000	\$ 213,096
Allocation of purchase price		
Intangible assets	865,000	-
Goodwill	-	213,096
Less: Liabilities assumed	-	-
	\$ 865,000	\$ 213,096

6. Property, plant and equipment:

As at December 31, 2010	Cost	Accumulated Amortization	Net Book Value
Equipment	\$ 441,264	\$ 315,221	\$ 126,043
Leasehold improvements	58,551	30,215	28,336
Vehicles	83,342	37,837	45,505
	\$ 583,157	\$ 383,273	\$ 199,884
As at December 31, 2009	Cost	Accumulated Amortization	Net Book Value
Equipment	\$ 398,918	\$ 279,827	\$ 119,091
Leasehold improvements	58,551	20,154	38,397
Vehicles	73,565	30,909	42,656
	\$ 531,034	\$ 330,890	\$ 200,144

HTC PUREENERGY INC.

Notes to Consolidated Financial Statements Years ended December 31, 2010 and 2009

7. Product development

Product development costs represent costs incurred to date in connection with the design and construction of the CCS Pureenergy[®] 1000, the HTC Solvent Reclaimer System (“SRS”) and the CCS FEEDengine[®]. Amortization of these costs will commence once the development is substantially complete.

	Dec. 31, 2010	Dec. 31, 2009
CCS Pureenergy [®] 1000	\$ 370,360	\$ 271,211
HTC SRS	217,033	194,913
CCS FEEDengine [®]	162,783	-
EHR Rising Bubble Apparatus	8,800	-
	\$ 758,976	\$ 466,124

8. Investments:

	Dec. 31, 2010	Dec. 31, 2009
Equity Investments		
Maxx Energy Solutions Corp. (a)	\$ 4,840,078	\$ 4,666,764
	4,840,078	4,666,764
Portfolio Investments		
Share investments - Available-for-sale - cost (b)	2,337,682	2,330,790
Share investments - Available-for-sale (c)	125,000	-
	2,462,682	2,330,790
Notes and Loans Receivable		
Notes receivable - non interest bearing and without set terms	35,862	43,462
Loans receivable - interest bearing at 1%, due April 1, 2016	143,657	187,657
	179,519	231,119
Investments - Total	\$ 7,482,279	\$ 7,228,673

- a) The Corporation has a 45% voting interest in Maxx Energy Solutions Corp. (“Maxx”), and accounts for its investment using the equity method. In 2010 the Corporation recorded \$173,314 of equity earnings from its investment in Maxx (2009 - \$84,471). The equity earnings have been added to the carrying value of the investment.
- b) The Corporation holds 10,000 common shares of Global Energy Inc., a private US corporation. The investment has been classified as available-for-sale at cost, as there is no quoted active market for these securities.

HTC PUREENERGY INC.

Notes to Consolidated Financial Statements Years ended December 31, 2010 and 2009

8. Investments (continued)

On January 29, 2010 the Corporation received 100,000 common shares in USA Synthetic Fuel Corporation, as a share dividend received resulting from the Corporation's investment in Global Energy Inc. At December 31, 2010 these shares were restricted, and therefore have been recorded as available-for-sale at cost. Upon removal of the trading restrictions the shares will be classified as available-for-sale at fair value through other comprehensive income.

- (c) On December 4, 2008 HTC acquired 2,500,000 shares in EESTech Inc. in exchange for granting a limited licensing agreement for the use of HTC's CCS Technology, and upon expiry of trading restrictions in 2010 the Corporation has classified these shares as available-for-sale at fair value through other comprehensive income (2009 – recorded as available-for-sale – cost). The shares have been recorded at their trading price at December 31, 2010 based on year end quoted prices obtained from over the counter exchanges.

9. Patents:

Patents are comprised of:

	Dec. 31, 2010	Dec. 31, 2009
Patent applications costs	\$ 129,633	\$ 77,094
Amortization of patents	(17,675)	(11,383)
	\$ 111,958	\$ 65,711

10. Goodwill and Intangible Assets:

	Dec. 31, 2010	Dec. 31, 2009
Goodwill	\$3,678,195	\$3,670,099
Intangible assets subject to amortization	7,978,564	9,043,663
Adjustment for impairment	-	(1,065,099)
Amortization of intangible assets	(3,548,926)	(3,121,085)
Ending balance – goodwill and intangibles	\$8,107,833	\$8,527,578

Management performed an analysis of the carrying value of its goodwill and intangible assets as at December 31, 2010, according to its policy as set out in Note 2. Based on management's forecasted cash flows, including consideration of risks inherent therein, the Corporation has concluded that there is no requirement for adjustment to the carrying value of

HTC PUREENERGY INC.
Notes to Consolidated Financial Statements
Years ended December 31, 2010 and 2009

10. Goodwill and intangible assets (continued):

goodwill or intangible assets at the date of these consolidated financial statements. This assessment is subject to the estimates and measurement uncertainty as disclosed elsewhere in these consolidated financial statements.

Goodwill and intangible assets were recorded on acquisition of the subsidiaries. GAAP requires identifiable intangible assets that meet recognition criteria be identified, valued and disclosed separately from goodwill. Items giving rise to intangibles and related goodwill include, but are not limited to: intellectual property (i.e. rights to provisional patents, technology rights software rights), contractual rights with advantageous conditions, human resources (i.e. research teams, project management, patent resources), and branding and name recognition related items (literature, data base, videos, domain names, etc) as well as various other items. Goodwill comprises the difference between the purchase price of the respective subsidiary and identifiable net tangible and intangible assets.

During the 2009 year, Management completed an evaluation of its intangible assets not subject to amortization and its goodwill. As a result of the review of intangible assets, not subject to amortization, management concluded the following:

- Due to the increased emphasis in the development of related technology, management considered that the ongoing value associated with specific intangibles had been marginalized and or become dated, and adjusted the carrying value accordingly.
- The remaining intangibles were not impaired, however these would no longer likely be of benefit beyond the life of a typical patent or other similar long lived asset and accordingly amortization of these remaining intangible assets commenced.

Management, including subsequent consideration, also concluded that goodwill was not impaired as at December 31, 2009. The 2009 financial statements included a misclassification of the above noted impairment adjustment to intangible assets as an adjustment to goodwill which has not resulted in a misstatement of reported net earnings or the net balance of intangible assets and goodwill, and therefore the prior year financial statements have not been restated. This classification has been adjusted in the comparative figures of the note above in the current year financial statements.

HTC PUREENERGY INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2010 and 2009

11. Share capital:

At December 31, 2010 and 2009, the Corporation has authorized an unlimited number of common shares and an unlimited number of preferred shares.

Common Shares	As at Dec. 31, 2010		As at Dec. 31, 2009	
	Number	Amount	Number	Amount
Balance, beginning of year	17,959,195	\$36,542,214	17,429,451	\$35,266,918
Issued to acquire CRX (Note 5)	-	-	346,000	865,000
Issued under private placement	-	-	43,744	120,296
Issued under private placement	-	-	40,000	100,000
Issued to acquire CCM (Note 5)	-	-	100,000	190,000
Balance, end of year	17,959,195	\$36,542,214	17,959,195	\$36,542,214

The Corporation has no issued or outstanding preferred shares. The Corporation is authorized to issue one or more series of non-voting, participating in preference to common shares, eligible, preferred shares.

On March 10, 2009 the Corporation issued 346,000 shares at \$2.50 per common share for the acquisition of CRX. The common shares were subject to a hold period until July 11, 2009.

On May 8, 2009, the Corporation issued 43,744 common voting shares at a price of \$2.75 per share, under private placement, for the gross proceeds of \$120,296. These common shares were subject to a hold period under Securities Laws until September 9, 2009.

On December 14, 2009 the Corporation issued 40,000 common voting shares at a price of \$2.50 per share, under private placement, for gross proceeds of \$100,000. These common shares were subject to a hold period under Securities Laws until April 15, 2010.

On December 21, 2009 the Corporation issued 100,000 common shares at \$1.90 per share for the acquisition of CCM. The shares were subject to a hold period until April 22, 2010.

HTC PUREENERGY INC.
Notes to Consolidated Financial Statements
Years ended December 31, 2010 and 2009

12. Stock options:

The Corporation has a stock option plan for directors, officers, employees and consultants providing for the issuance of options to acquire up to ten percent of the issued and outstanding common shares of the Corporation. The following table reflects the stock option and warrants activity from January 1, 2009 through December 31, 2010 and the weighted average exercise price:

	As at Dec. 31, 2010		As at Dec. 31, 2009	
	Options	Avg. Price	Options	Avg. Price
Outstanding, and exercisable, beginning of year	3,267,909	\$ 3.26	3,386,091	\$ 3.20
Expired and cancelled (i, ii)	(2,717,909)	3.00	(218,182)	2.20
Stock options granted (iii, iv)	1,340,000	1.00	100,000	3.00
Stock options not yet vested (iv)	(170,000)	1.00	-	-
Outstanding and exercisable, end of year	1,720,000	\$ 2.13	3,267,909	\$ 3.26

- i. In 2010 2,717,909 warrants expired, relating to a 2007 issuance of stock options which were exercisable at \$3.00 per common share.
- ii. In 2009 218,182 broker warrants issued in 2007 related to a share issuance and exercisable at \$2.20 per common share expired unexercised.
- iii. On December 21, 2009 the Corporation granted 100,000 units as part of a share issuance related to an acquisition. Each unit comprises one common share and one common share purchase warrant. Each warrant, subject to certain conditions, entitles the holder to purchase an additional common share at \$3.00 expiring December 15, 2014. No expense was recorded upon issuance.
- iv. On June 14, 2010 the Corporation granted 1,340,000 stock options to four directors and an officer of the Corporation, at a price of \$1.00 per common share with 1,170,000 options vesting in 2010, and with 100,000 and 70,000 vesting in 2011 and 2012 respectively, with an estimated fair value of \$538,000 at the grant date. The stock options will expire on June 12, 2015 or such earlier date on which the stock options are exercised. The grant and the terms and conditions of the agreements have been approved by the board of directors.

HTC PUREENERGY INC.
Notes to Consolidated Financial Statements
Years ended December 31, 2010 and 2009

12. Stock options (continued):

The Black Scholes Option Pricing Model is used to estimate the fair value of stock options for calculating stock based compensation expense. The Corporation recognised a stock based compensation expense and an increase to contributed surplus based on the vesting schedule of the option, based on the following assumptions:

Date Granted	June 14, 2010
Number of options granted	1,340,000
Risk free interest rate	3.4%
Expected dividend yield	Nil
Expected stock price volatility	82.7%
Expected option life in years	5
Estimated forfeiture before exercise	100,000

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Change in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Corporation's stock options.

The total fair value of stock based compensation expense on stock options granted to employees and consultants of the Corporation for the year ended December 31, 2010 is \$485,000 (2009 - \$Nil).

13. Financial instruments:

The Corporation's financial instruments consist of cash and cash equivalents, short term investments, accounts receivable, accounts payable and accrued liabilities, and available-for-sale investments carried at fair value. The fair values of cash, short term deposits, accounts receivable, accounts payable and accrued liabilities approximate carrying value because of the short-term nature of these instruments.

The fair value of available-for-sale investments other than those carried at cost is based on prices quoted on over the counter exchanges. The fair value of available-for-sale investments accounted for according to the cost basis is not practical to determine as the investments are not publicly traded.

HTC PUREENERGY INC.

Notes to Consolidated Financial Statements Years ended December 31, 2010 and 2009

13. Financial instruments (continued):

Fair value measurements recognized in the balance sheet must be categorized in accordance with the following levels:

- (i) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- (ii) Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e., derived from prices);
- (iii) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Corporation categorized the fair value measurement of its short-term deposits, and available-for-sale investments recorded at fair value, and bank overdraft in Level 1 as they are primarily derived directly from reference to quoted (unadjusted) prices in over the counter markets.

The Corporation has not identified any Level 2 or Level 3 financial instruments reported at fair value. The Corporation's financial instrument classification is summarized as follows:

	2010			
	Level 1	Level 2	Level 3	Total
Short term deposits	\$3,704,723	\$ -	\$ -	\$ 3,704,723
Available for sale investments - fair value	125,000	-	-	125,000
Bank overdraft	5,211	-	-	5,211
	\$3,834,934	\$ -	\$ -	\$ 3,834,934

	2009			
	Level 1	Level 2	Level 3	Total
Short term deposits	\$6,966,165	\$ -	\$ -	\$ 6,966,165
Available for sale investments - fair value	-	-	-	-
Bank overdraft	68,426	-	-	68,426
	\$7,034,591	\$ -	\$ -	\$ 7,034,591

HTC PUREENERGY INC.
Notes to Consolidated Financial Statements
Years ended December 31, 2010 and 2009

14. Provision for income taxes:

Income tax provision (recovery) differs from the amount that would be computed by applying the Federal and Provincial statutory income tax rate of 30% (2009 – 31%) for the following reasons:

As at December 31	2010	2009
Computed income tax provision (recovery)	\$(412,300)	\$(1,802,400)
Increase (Reduction) attributable to:		
Equity income	(52,000)	(26,200)
Capital gains and losses	-	-
Impairment adjustment	-	330,200
Stock based compensation	145,500	-
Acquisition related amortization and other permanent differences	128,400	163,000
Other items	(4,300)	180,800
	(194,700)	(1,154,600)
Adjustment of net future tax assets for enacted changes in tax laws and rates and other differences:		
Utilization of non-capital loss carry forward	(27,700)	(55,100)
Change in valuation allowance	222,400	1,209,700
	\$ -	\$ -

The Corporation's current expenditures on SR&ED are potentially eligible for a Federal tax credit of 20% and a Saskatchewan tax credit of 15%. As at December 31, 2010 the Corporation had an anticipated balance of approximately \$368,400 of tax credits available to reduce future year taxes (expiring December 31, 2015 to 2030). In addition, the Corporation has refundable provincial tax credits estimated at \$23,400 (not recorded in respect to the 2010 year). The amounts of tax credits ultimately received by the Corporation are subject to review by the Canada Revenue Agency and the Saskatchewan Minister of Finance for technical and financial aspects of the tax credit claims.

Qualifying SR&ED expenditures (after consideration of tax credits) are deductible against taxable income in the year incurred or may be carried forward indefinitely. As at December 31, 2010 the Corporation has approximately \$2,307,000 of SR&ED expenditures available to reduce future year's taxes. These amounts are subject to review and evaluation by the Canada Revenue Agency. Actual qualifying amounts may vary from managements estimate in the event the Canada Revenue Agency has an alternative interpretation of qualifying amounts, the difference would transfer to the non capital loss carry forward amounts.

HTC PUREENERGY INC.

Notes to Consolidated Financial Statements Years ended December 31, 2010 and 2009

14. Provision for income taxes (continued):

The Corporation has approximately \$7,189,000 of non-capital losses available at December 31, 2010 to reduce taxable income of future years. These losses expire in periods from 2014 to 2030. The Corporation also has capital losses of \$349,100 available to reduce future capital gains.

The Corporation has undepreciated capital cost claims in excess of net book value of approximately \$34,500 available to reduce future year's taxes. In addition, the Corporation has capitalized \$1,083,200 of share issuances costs which are deductible for tax purposes on straight-line basis over 5 years of which \$445,800 is available for future years.

15. Per share amounts:

Basic net earnings (loss) per common share have been calculated using the weighted average number of common shares outstanding during the period. Diluted net loss per common share is considered to equal basic earnings per share, as the effect of common share options would be anti-dilutive.

16. Related party transactions:

Related party transactions include management fees received from the Corporation's equity accounted investee, and transactions with corporate investors who have representation on the Corporation's board. The revenue and costs recognized with such parties reflect the prices and terms of sales and purchase of transactions with related parties in accordance with normal trade practices.

	Dec. 31, 2010	Dec. 31, 2009
<hr/>		
Balance with related Parties:		
Accounts Receivable	1,318,132	223,904
Accounts Payable	-	155,388
Transactions with related parties:		
Consulting revenue - equity investee	411,750	273,069
Subcontract revenue (a)	1,570,817	-
Purchases - equity investee	4,507	667,746

- a. Subcontract revenue relates to engineering services and CO₂ capture feed studies provided by the Corporation to Doosan Babcock, who is considered a related party due to representation on the Corporation's board.

HTC PUREENERGY INC.

Notes to Consolidated Financial Statements Years ended December 31, 2010 and 2009

17. Financial risk management:

Management's risk management policies are typically performed as a part of the overall management of the Corporation's operations. Management is aware of risks related to these objectives through direct personal involvement with employees and outside parties. In the normal course of its business, the Corporation is exposed to a number of risks that can affect its operating performance. Management's close involvement in operations helps identify risks and variations from expectations. The Corporation has not designated transactions as hedging transactions to manage risk. As a part of the overall operation of the Corporation, management considers the avoidance of undue concentrations of risk. These risks and the actions taken to manage them include the following:

Liquidity risk is the risk that the Corporation cannot meet its financial obligations associated with financial liabilities in full. The Corporation's main sources of liquidity are its operations and equity financing. The funds are primarily used to finance working capital and capital expenditure requirements and are adequate to meet the Corporation's financial obligations associated with financial liabilities.

Currency risk is the risk that changes in foreign exchange rates may have an effect on future cash flows associated with financial instruments. The Corporation has no significant transactions denominated in foreign currency and is not exposed to any material foreign currency risk aside from broad unquantifiable macroeconomic factors arising from fluctuations in foreign exchange which could result in Canadian products becoming more expensive to international purchasers.

Foreign exchange risk is primarily associated with contracts for services and contracts of supplies and services. Substantially all of the Corporation's revenues and expenses are denominated in Canadian dollars, and therefore is isolated from foreign exchange risk.

Interest rate risk primarily is associated with interest fluctuations earned on the Corporation's cash and term deposits. The Corporation mitigates exposure by attempting to match rates and terms to expected cash requirements, and through having the majority of its revenues and expenses denominated in Canadian dollars. A 1% change in the prime interest rate would have a negligible impact on the Corporation's income.

Credit risk is the risk of financial loss if a counterparty to a financial transaction fails to meet its obligations. The Corporation attempts to reduce such exposure to its cash, and short term deposits by only investing in low risk investments with Canadian Chartered Banks and taking advantage of government guarantees. The Corporation attempts to reduce its loss on amounts receivable by assessing the ability of the counterparties to fulfill their obligation under contract prior to entering into the contracts and by the nature of customers the Corporation deals with. There have been no significant impairment losses recorded on accounts receivable.

HTC PUREENERGY INC.

Notes to Consolidated Financial Statements Years ended December 31, 2010 and 2009

17. Financial risk management (continued):

Due to project nature of operations of the Corporation, management considers accounts receivable outstanding less than 90 days to be current. The aging of the Corporation's accounts receivable at December 31, 2010 is as follows:

	Current	Over 90 Days	Total
Aging of accounts receivable at December 31, 2010	\$ 1,388,628	\$ 435,631	\$ 1,824,259
Aging of accounts receivable at December 31, 2009	\$ 93,844	\$ 356,543	\$ 450,387

18. Capital Disclosures:

The Corporation defines its capital as its shareholders' equity. Except as otherwise disclosed in these financial statements, there are no restrictions on the Corporation's capital.

The Corporation's objectives when managing capital are to:

- maintain financial flexibility in order to preserve its ability to meet financial obligations;
- deploy capital to provide an appropriate investment return to its shareholders in the future;
- maintain a capital structure that allows multiple financing options to the company should a financing need arise.

The Corporation's financial strategy is designed and formulated to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust its capital structure, the company may issue new shares, raise debt (secured, unsecured, convertible and/or other types of available debt instruments) or refinance existing debt with different characteristics.

19. Commitments:

On February 23, 2009 the Corporation entered into a new office leasing agreement with the Saskatchewan Opportunities Corporation. The term of the lease is for a period of five years commencing April 1, 2009. Rent for the premises in the amount of \$9,167 are payable monthly on the 1st day of each and every month. In addition the Corporation is required to make monthly instalment payments of \$6,270 on account for their share of occupancy costs (adjusted annually). Total minimum monthly lease payments over the next five years are \$357,513.

Board of Directors & Senior Officers of the Corporation as at December 31, 2010

Directors:

Lionel Kambeitz,
Regina, Saskatchewan,

Jeffrey Allison,
Regina, Saskatchewan,

Wayne Bernakevitch,
Regina, Saskatchewan,

James Rybchuk,
Regina, Saskatchewan,

Richard Dennis
Surrey, United Kingdom

Senior Officers:

Lionel Kambeitz, Chairman and CEO
Jeffrey Allison, Sr. Vice-President & CFO
Thor McDonald, Vice-President

Committees of the Board of Directors:

Audit Committee
Compensation Committee
Nominating Committee

Members of Audit Committee:

James Rybchuk, Lionel Kambeitz and Wayne
Bernakevitch

Members of Compensation Committee:

Jeffrey Allison and Wayne Bernakevitch

Members of Nominating Committee:

Jeffrey Allison and Wayne Bernakevitch

Shareholder Information

Stock exchange: TSX Venture Exchange Inc.

Stock symbol: HTC

Common Shares outstanding as of December 31, 2010: 17,959,195

Head office and Investor relations address:

HTC PUREENERGY
Suite 150, 10 Research Drive
Regina, Saskatchewan S4S 7J7
Telephone: (306) 352-6132
Fax: (306) 545-3262
E-mail: investorinfo@htcenergy.com

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Asia Pacific:
Sydney, Australia
Telephone: +61 4 10229 393

United States Address:
P.O. Box 106 Main St.
Montgomery Center,
Vermont, U.S. 05471-0106
Telephone: (802) 933-2711

Registrar and Transfer Agent:

Computershare Trust Company of Canada
600, 530 - 8th Avenue S. W.
Calgary, Alberta T2P 3S8

Banks: HSBC; CIBC; Bank of Nova Scotia

Auditors: Virtus Group LLP, Chartered Accountants, Regina, Saskatchewan

Legal Counsel: McDougall Gauley, Barristers and Solicitors, Regina Saskatchewan

Borden Ladner Gervais LLP, Barristers and Solicitors, Calgary Alberta

Jones Day, Solicitors, London England

Madgwicks Lawyers, Law Firm, Melbourne Australia

The Bingham Law Group, APC, Carlsbad, California

Dividend policy:

No dividends have been paid on any common shares of the Corporation since the date of inception, and it is not contemplated that any dividends will be paid in the immediate or foreseeable future.

Duplicate Communications:

Some shareholders may receive more than one copy of the annual report and proxy-related material. This is generally due to ownership of registered shares in addition to non-registered shares; holding shares in more than one account; or purchasing shares from more than one stock brokerage firm. Every effort is made to avoid such duplication. Shareholders who receive duplicate mailings should notify the investor relations department at the above address.